COMMITTEE ON SCARCE RAW MATERIALS

REPORT

May 1965

CONTENTS

PAGES

Introduction .. .. VII—XIII

CHAPTER One—Availability of Scarce Raw Materials .. 1—24

CHAPTER Two—The Procedure .. .. 25—32

CHAPTER Three—Disabilities of Small Industries .. .. 33—42

CHAPTER Four—Recommendations .. .. .. 43—54

APPENDIX I—Proposed categorisation of Industries 55—58

APPENDIX II—Suggested Priority Industries .. 59—60

APPENDIX III—Letter of Transmittal of the Resolution on Interim Recommendation .. 61—62

APPENDIX IV—Role of the D.C. (SSI) and the State Directors of Industries .. . 63—64

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LETTER OF TRANSMITTAL

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH, PARISILA BHAWAN, 11, *INDRAPRASTHA ESTATE, NEW DELHI*-1

Dr. P. S. Lokanathan,
Director General

New Delhi
May 28, 1965

Dear Shri Singh,

At the 22nd meeting of the Small Scale Industries Board held at New Delhi on 13th and 14th August, 1964, the late Shri H. C. Dasappa, Minister of Industry and Supply announced the appointment of a Committee to make recommendations in regard to the steps necessary to secure the equitable distribution of available scarce raw materials among the large, medium and small scale sectors and to ensure the proper utilization of the materials so allotted. The appointment of the Committee was formally notified by the Ministry of Industry in their Resolution No. SSI(A)-20(68)/64 dated the 10th September, 1964. I am happy to present this report as Chairman of the Committee.

2. In our study of the problem of availability and utilization of scarce raw materials, we had the benefit of the exhaustive studies conducted by the International Perspective Planning Team during 1962-63. The State Directorates of Industries of Maharashtra and Uttar Pradesh had also made independent studies at our request about the availability of raw materials to the small scale sector in their respective States.

3. Early during the course of our study, two points became increasingly clear : (1) Allocations to the small scale sector continued to be made on an *ad hoc* basis year after year without reference to the actual requirements and performance of the sector as in the case of large scale sector, and (2) comprehensive and comparable data on the small scale sector were not available over a period of years. In our opinion, a certain degree of inequality is bound to result in any such system especially since the small scale sector being a 'free' sector was rapidly growing all the time.

4. We feel strongly that there should be equality of treatment to all industrial units producing similar end-products irrespective

of the sector to which they belong and therefore recommend the adoption of this principle.

5. A system of equitable distribution of scarce raw materials between large scale and small scale sectors can, in our opinion, be based only on uniform systems of assessment of production capacities, actual performance and inspection of utilisation so far as comparable industries in the two sectors are concerned. Allocation of scarce materials should be based on the priorities of the end-products irrespective of the sector of the units producing them. Taking these factors into consideration, we have recommended a system, the adoption of which will place units producing comparable products in the two sectors on an equal footing.

6. The implementation of this recommendation involves collection of basic data so far as the small scale sector is concerned. Since this process will take time, perhaps about a year or eighteen months, and since we are convinced that the sector deserves higher allotments immediately, we recommend that for the next three half years commencing from April-September, 1965, the foreign exchange allotment to the sector should be increased to Rs. 25 crores per half year for all imported scarce raw materials. (This includes foreign exchange administered by the Chief Controller of Imports & Exports, imported steel, non-ferrous metals and rupee allocations).

7. One of the important factors that have contributed to the phenomenal growth of the small scale sector in recent years is the 'freedom' of the entrepreneur to start a unit without obtaining a licence. We feel that this 'freedom' is a definite advantage and should be retained. While this is undoubtedly important, we recommend that in the case of units requiring scarce raw materials, a system of 'guidance' from the State Directorates of Industries is desirable and justified. We also recommend that a small residuary provision of foreign exchange should be made to assist new small scale entrepreneurs trying out new innovations.

8. The small scale sector has undoubtedly contributed much to the rapid decentralised development of the industrial structure of our country. It has still a great role to play in future in this direction, and our recommendations are intended to further accelerate this development. Being aware of your interest in this subject. I commend these recommendations for your consideration and I have no doubt that their implementation would lead to the rapid, integrated development of industries in our country. Our recommendations are also in consonance with the declared

policy of encouraging the small scale sector as stated in the Industrial Policy Resolution, 1956.

Yours sincerely,

P. S. LOKANATHAN

Shri T. N. Singh,
Minister of Industry,
Government of India,
NEW DELHI.

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INTRODUCTION

0.1 The growth of modern small scale industries has been hailed as one of the most significant features of recent economic development in India and experience over the last decade has confirmed that this sector is a powerful factor in the rapid, decentralized growth of a developing economy.

0.2 The major aim of policy in our country has been to ensure broad-based ownership in industry, diffusion of enterprise and liberal facilities for the new entrants. The idea is to stimulate entrepreneurship amongst the middle and lower middle classes so as to bring into existence a new class of self reliant progressive entrepreneurs in large numbers. These, it is expected, would not only help in achieving economic decentralization but also in diffusing industry to all parts of the country to help achieve a balanced regional economic development. The new class of entrepreneurs would also, it is rightly thought, help in mobilizing capital resources available in the rural and semi-urban areas for industrial development. The Committee is happy to note that these objectives have been achieved in a substantial measure during the last decade, thanks to the rapid development of the small scale sector. It is now clear that we are progressing in the desired direction at a reasonably fast rate. In view of our social objectives and economic goals, it is necessary to accelerate this progress.

0.3 The rapid, planned growth of the large scale industry sector has itself given impetus to an equally rapid growth of the small scale sector in secondary and tertiary areas as adjuncts to the large scale sector. Large numbers of enthusiastic young men are continuously coming forward to avail of the opportunities for further development in this direction. Therefore, it is not only the actual contribution to production or the national priorities of the products of the small scale sector but also the fact that it has helped to create a new class of self-reliant progressive entrepreneurs that should be considered in measuring the progress of the small scale sector. Starting practically from nothing about a decade back, there are now over 57,000 small scale units registered with the various State Directorates of Industries.

0.4 An important factor which has contributed to the rapid growth of the small scale sector is the freedom of the prospective entrepreneur to choose his line of industrial activity. The small scale sector has been a "free" sector unlike the large scale sector where one has to obtain a licence to start an industrial unit. Besides this freedom of entry, the various programmes of assistance like technical assistance, supply of machinery on hire purchase basis, provision of credit, construction of industrial estates, participation in Government stores purchase programme, development of ancillaries etc., which have been adopted, have materially helped to accelerate the growth of the sector. The State Governments and financial institutions have also simplified their procedures and adopted liberal programmes of assistance to give further impetus to this development.

0.5 The small scale industrial units, in the initial stages, took up the manufacture of comparatively simple items. They quickly demonstrated their capacity to handle more complex items particularly in the metal working and machinery industries and of late in the chemical industries. The development of metal working and machinery industries has been the most significant aspect of small industry development during the last six or seven years. According to the International Perspective Planning Team, in 1960, such units had a total output of Rs. 218 crores with an employment of 2,17,600 persons. In fabricated metal products, small plants produced 60 per cent of the total output of all registered factories (1960). In non-electrical machinery, they were responsible for 46 per cent of the gross output. Their share in basic iron and steel products (largely castings), non-ferrous metal products and electrical machinery is also significant.[1]

0.6 In the initial stages, roughly till about 1960, the small units did not, generally speaking, experience shortages of raw materials, since allocations to them were being increased year to year on an *ad hoc* basis. However, the sector expanded so rapidly, thanks to the various programmes of assistance mentioned above and the policy of unrestricted entry, that shortages of various items of raw materials began to be felt in and after 1960-61. Complaints in the Small Scale Industries Board Meetings about the shortages began to increase. As the foreign exchange situation deteriorated, the position grew worse and a feeling also gradually grew that in the allocation of scarce raw materials, the small scale sector was not getting its due share as against the allocations made to the scheduled sector units.

0.7 The International Perspective Planning Team which was invited early in 1962, to review the progress made by small scale industries since the programme was initiated in 1955, found even

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International Perspective Planning Team Report Pages 16-21.

at the outset of their study that supply of raw materials was the major problem facing the small industries. Members of the Team devoted full attention to this problem in their interviews of businessmen and officials in the States. At the instance of the Team, a working group of foreign and Indian economists undertook an extensive study of the raw materials and the import allocations and their price control system in the Centre and in eight States. Special studies were made of selected firms in various States to determine how the present allocations and price control systems affected business operations. A second group of studies was undertaken of State Government allocation records to determine how the system was being run by the State officials. On the basis of these studies, the Team concluded : "Of all the present difficulties, raw material supplies available at competitive prices appear to be the greatest. The evidence points out that the inequities in the distribution of raw materials and imports are so severe that they tend to override all other types of assistance offered to small firms by the Government. These difficulties are apparent from the studies of the firms conducted by the Working Group in both industrially developed and under-developed States".

0.8 According to the Team nearly 60 per cent of the firms analyzed provided evidence that critical shortages of materials and components that could only be purchased at higher black market prices made it unprofitable for them to expand their production to fuller utilization of capacity. Another 18 per cent of the firms stated they could not get additional supplies at any price. Nearly half of the firms which found it unprofitable to increase production because of the black market prices of raw materials, were facing competition with larger firms making similar products, and the larger firms getting allocated inputs at fixed prices.

0.9 A number of large firms producing similar products were checked by the Team as to the allocations they received at fixed prices through the Department of Technical Development and it was found that on the average, they were allocated 85 per cent of their one shift requirements. In contrast, smaller competitors received allotments to cover only 33 per cent to 40 per cent of one shift requirements. There was also an extreme range of the ratios of allotments to small firms for one shift operation. Some small firms bought all their raw materials and components in the black market. The largest group was seen to cover about one third of one shift capacity; few got above 75 per cent.

0.10 The Team found that the percentage of capacity covered by allocation seemed to depend primarily on the size of the firm. It had little, if anything, to do with the priority of the product being manufactured. It was all too evident to the Team that the allocations system worked to the advantage of the larger firms, at the expense of the smaller ones.

0.11 The team also noted that the relative cost disadvantage was significant for the small firm in competition with the large. Even if costs were higher, but equal for both, the small firms would not be confronted with such a difficult situation.

0.12 The Team concluded : "Solutions for the raw materials and imported components allocation and price problems must be sought within the shortage conditions existing today. Shortages of various inputs will persist as long as Indian planners press their growth plans to the fullest. We are not concerned with just a small part of the industrial economy because it happens to be small industry. As has been pointed out in the previous chapter, these modern small factories constitute one third of all registered factory production. They also furnish 38 per cent of all registered factory employment. Their role is not insignificant in either case, and whatever discriminates against them certainly requires study and correction in the national interest. Continuation of the present inequities clearly weakens their ability to mature and multiply and strengthen the economy."[1]

0.13 The International Perspective Planning Team is quoted in extenso here only to bring out that in spite of these findings of the Team, the allocations to small scale sector were not increased or the system modified to any significance. The Team's Report has led to further criticism and the feeling has gained ground that the small scale sector is not receiving just treatment. At the 21st and 22nd meetings of the Small Scale Industries Board this matter received a good deal of attention and criticisms were levelled from all sides about 'discrimination' meted out to the small scale sector in this matter. Some members even said that it was not a "crisis of foreign exchange" but a "crisis of faith" of the Government in the programme of development of small scale industries that was responsible for this state of affairs. It was in this background that at the 22nd meeting of the Small Scale Industries Board, held in New Delhi on 13th and 14th August, 1964, the late Shri H. C. Dasappa, Minister of Industry and Supply announced the appointment of our Committee to study the whole question.[2]

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[1] IPP Team Report Page 45.

[2] The appointment of the Committee was formally notified by the Ministry of Industry and Supply, Department of Industry, in their Resolution No. SSI(A)—20(68)/64 dated 10th September, 1964.

The Committee consisted of the following :—

1. Dr. P. S. Lokanathan, Director General, National Council of Applied Economic Research, New Delhi	*Chairman*
2. Shri A. R. Bhat, President, Federation of Associations of Small Industries of India, New Delhi.	*Member*
3. Shri G. L. Bansal, Secretary General, Federation of Indian Chambers of Commerce & Industry, New Delhi.	*Member*
4. Shri S. S. Kumar, and later, Shri P. C. Kapoor, Director General, Technical Development, New Delhi.	*Member*
5. Dr. D. K. Malhotra, Joint Secretary, Planning Commission, New Delhi.	*Member*
6. Dr. S. T. Merani, Development Commissioner, Small Scale Industries, New Delhi.	*Member*
7. Shri S. V. S. Sharma, Secretary, Small Scale Industries Board, Office of the Development Commissioner, Small Scale Industries, New Delhi.	*Member-Secretary*

0.14 The terms of reference of the Committee were as below :—

(a) How best to secure the equitable distribution of available scarce raw materials among the three sectors, *viz* :

  (i) Scheduled sector units with capital over Rs. 25 lakhs;

(ii) Units with capital above Rs. 5 lakhs and not more than Rs. 25 lakhs; and

(iii) Small scale units with capital not exceeding Rs. 5 lakhs;

(b) How best to ensure that the materials so allotted are utilised to the fullest advantage for the purpose for which they are allotted.

Scarce raw materials shall include :—

(i) raw materials/components licensed by the Chief Controller of Imports and Exports.

(ii) Steel, both indigenous and imported.

(iii) Non-ferrous metals.

(iv) basic organic chemicals and intermediates; basic inorganic chemicals like caustic soda, soda ash, titanium dioxide, etc.; pharmaceuticals and drugs; plastics, synthetic and natural rubber etc.

0.15. We had in all seven meetings and considered the various aspects of the problem in fair detail. We also received a number of written memoranda and other suggestions.

0.16 In view of the paucity of data regarding the small scale sector, we decided to get quickly some special studies conducted in some industries, at least, in certain States. Accordingly, the State Directors of Industries of Uttar Pradesh and Maharashtra were requested to conduct studies on a number of industries to assess the magnitude of the shortage of raw materials in those two States. The results made available by the two State Governments were considered by us.

0.17 At our third meeting, we decided to make an interim recommendation that the existing allocations of foreign exchange the small scale sector should not be reduced irrespective of the magnitude of the foreign exchange crisis. The letter addressed by the Chairman to the Secretary to the Government of India, Ministry of Industry, is given in Appendix III to this report.

0.18 Though we were required, according to the terms of reference, to study the availability of raw materials to the three sectors *viz.*, large, medium and small scale, we found that the Directorate General of Technical Development follows identical procedures and practices in the first two sectors. The medium scale sector having thus been identified with the large scale sector, the Committee's consideration was mainly on the differences between large and small scale sectors. It has also been found that though there are other authorities like the Textile Commissioner, Jute Commissioner and a few others concerned with the development of industries, they were looking after all the units in their respective industries, irrespective of their size. Therefore, the question of discrimination on the basis of size does not arise in the case of these industries. In our report, we mention about these at a few places only incidentally. Otherwise the main consideration is between the units on the lists of the Directorate General of Technical Development and the small scale units.

0.19 This report is divided into four chapters. We examine the availability of various categories of scarce raw materials to the two sectors in chapter one. It was evident that the available scarce raw materials were adequate to meet only about a third of the requirements of the small scale sector whereas the units in the large scale sector were able to utilize between half and two-thirds of their production capacities. The procedures adopted for the allocation of the different items of raw materials to the units in the two sectors are outlined in chapter two. It is our belief that the *ad hoc* system of allocation to the small scale sector has actually worked to its disadvantage. In addition, it has given rise to a series of disabilities from which the small scale sector is now suffering in the matter of allocations of scarce raw materials and also of further growth. These disabilities are described in detail in the chapter three. In the final chapter we make a number of recommendations to help in formulating a rational, equitable and enduring system of allocation of scarce raw materials to the different sectors in the national interest. As a short term measure, during a short transition period, we recommend an increase in the *ad hoc* allocations to the small sector to mitigate the present hardships.

CHAPTER ONE

AVAILABILITY OF SCARCE RAW MATERIALS

1.1 The amount of each item of scarce raw materials available to the industrial units in the large and small sectors has been, generally speaking, increasing, though it is not adequate to meet their respective requirements. In this chapter, we analyse the availability of the different items to the two sectors in recent years.

IMPORTED SPARE PARTS/COMPONENTS, RAW MATERIALS, ETC.

(a) *Small Scale Sector*

1.2 The allotment of a separate ceiling of foreign exchange for the import of components/spare parts and raw materials, licensable by the Chief Controller of Imports & Exports, commenced with the quarter July-September, 1957, when a ceiling of Rs. 50 lakhs was allotted on an *ad hoc* basis to the small scale industries sector. The ceiling was operated upon by the port licensing authorities of the Chief Controller of Imports & Exports in accordance with the procedure outlined in chapter two. The following table[1] shows details of the amounts made available to this sector since the inception of the scheme :—

Period	No. of applications	No. of licences issued	Allotted ceiling	Value of licences issued
			(Rs. lakhs)	
(1)	(2)	(3)	(4)	(5)
July—Sept.'57	NA	NA	NA	50·0
Oct. '57— Mar.'58	NA	NA	NA	81·5
Apr.—Sept.'58	NA	NA	NA	181·3
Oct. '58—Mar.'59	NA	NA	NA	165·3
Apr.—Sept.'59	NA	NA	NA	431·0
Oct. '59—Mar.'60	26,076	11,245	600·0	684·0
Apr.—Sept.'60	30,653	13,248	600·0	735·0

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[1] *Source*:—Central Small Industries Organisation, Ministry of Industry Figures in Col. 4, from April—Sept. 62, were supplied by the office of the Chief Controller of Imports & Exports.

Period (1)		No. of applications (2)	No. of licences issued (3)	Allotted ceiling (Rs. lakhs) (4)	Value of licences issued (Rs. lakhs) (5)
Oct.'60—Mar.'61	.. ..	36,394	12,969	600·0	677·0
Apr.—Sept.'61	.. ..	39,892	17,035	600·0	674·0
Oct.'61—Mar.'62	.. ..	39,476	16,595	600·0	984·0
Apr.—Sept.'62	.. ..	40,931	NA	500·0	500·0
Oct.'62—Mar.'63	.. ..	NA	NA	450·0	450·0
Apr.—Sept.'63	.. ..	NA	NA	500·0	620·0
Oct.'63—Mar.'64	.. ..	NA	NA	500·0	NA
Apr.—Sept.'64	.. ..	NA	NA	700·0	NA
Oct.'64— Mar.'65	.. ..	NA	NA	600·0	NA

NA—Not Available.

1.3 It may be seen that while the actual amount licensed for the small scale sector increased continuously till the end of October '61-March '62, the increase did not keep pace with the total demand as reflected in the number of applications.

1.4 An analysis of the licences issued for imports of industrial raw materials, spare parts/components by the Chief Controller of Imports & Exports Offices during 1963 was undertaken to study the type of items imported and the value of licences. The analysis was restricted to about 60 per cent of the amount licensed (by value). The following are the details[1] :

(1) No. of applications received	45,557
(2) Ceiling allotted	Rs.10 crores
(3) Value of imports actually licensed	Rs.11·13 ,,
(4) No. of licences analysed in this study	15,911
of these :	
(*a*) Licences under Rs. 20,000 each	14,929
(*b*) Above Rs. 20,000 each	982
(*c*) Face value of licences analysed	Rs.6·10 crores
(*d*) Average value of licence	Rs. 3,834

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[1] *Source* :—A Study conducted by the CSIO.

1.5 The analysis shows that a vast majority of the licences are of small value (less than Rs. 20,000 each) and that a large number of small entrepreneurs benefit by the imports. The items licensed are all industrial raw materials/components, subject to further processing in the country and thus creating/sustaining employment and incomes. The "value added" by manufacture is bound to be considerable.

(b) *Large Scale Sector*

1.6 The amount of foreign exchange allotted to the Directorate General of Technical Development for imports of spare parts/components by the scheduled units borne on the lists of the D.G.T.D. is as below[1] :—

Period	Value (Rs. lakhs)
Apr.—Sept.'59	80,89
Oct. '59—Mar.'60	72,85
Apr.—Sept. '60	1,18,66
Oct. '60—Mar.61	31,91
Apr.—Sept.'61	76,26
Oct.'61—Mar.'62	54,37
Apr.—Sept.'62	63,12
Oct.'62—Mar.'63	54,30
Apr.—Sept.'63	54,30
Oct.'63—Mar.'64	59,51
Apr.—Sept.'64	71,28
Oct.'64—Mar.'65	61,01

NON-FERROUS METALS

(a) *Small Scale Sector*

1.7 The following statement[2] indicates the allocation of non-ferrous metals to the small scale units since the introduction of the Non-Ferrous Metals Control Order in 1958.

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[1] *Source* :—Figures from April—September 1962 onwards from the office of the CCIE; earlier figures, supplied by CSIO.

[2] *Source* :—Compiled in CSIO.

Allocation of Non-ferrous Metals to the Small Scale Sector

(Figures in Metric Tons)

Period	Copper	Zinc	Lead	Tin	Aluminium	Nickel
Apr.—Sept. '58	4,030	—	—			
Oct. '58—Mar. '59	5,415	—	—			
Apr.—Sept. '59	6,109	4,775	163			
Oct. '59—Mar. '60	6,938	6,000	250			
Apr.—Sept. '60	8,145	6,060	200			
Oct. '60—Mar. '61	8,673	6,060	200			
Apr.—Sept. '61	11,800	12,050	250		1,067	
Oct. '61—Mar. '62	11,800	12,050	250		1,466	
Apr.—Sept. '62	10,283	8,741	250		1,500	
Oct. '62—Mar. '63	11,250	8,363	222	513	1,500*	77·570
Apr.—Sept. '63	11,250	8,182	222	415·400		
Oct. '63—Mar. '64	11,250	8,182	200	413·400	2,500@	167·200**
Apr.—Sept. '64	10,125	5,555	500**	469	8009	
Oct. '64—Mar. '65	5,400	5,000	1,000	470	1,391	71·600

NOTE—(1) Allocation to the small scale sector in respect of tin was made during Oct. '62—March '63 period for the first time

(2) Allocation for Nickel to the small scale sector was made during Apr.—Sept. '63 period for the first time.

REMARKS—

*Combined allocations were made for Oct. '62—Sept. '63 period.

@Plus 3,000 tons indigenous aluminium.

**Includes 195 tons for defence projects.

***Allocation was made for Oct. '63—Sept. '64 period.

1.8 Table 1.1 at the end of the chapter shows the foreign exchange allotted to small scale sector for import of non-ferrous metals since Oct. '61-Mar. '62 period. It is evident that since the half year Apr.-Sept. '63, the share of the sector has gone down.

1.9 There has been a rapid growth of small scale units using non-ferrous metals for industrial purposes. Since entry to this sector was unrestricted, a number of units were set up in the different States to manufacture various types of industrial products/components. The allocations of the two important non-ferrous metals, *viz.* copper and zinc, to this sector were gradually rising from 1958 to September 1961 but the demand was rising much faster. From Oct. '62 onwards, the allocations have been either stationary or going down.

1.10 A survey of non-ferrous metals-using small scale units conducted by the CSIO and the State Directorates of Industries jointly, in 1964, disclosed that there were 11,870 such units as in 1963. The capacities for various metals were as below[1] :—

Metal	Capacities in Metric Tons
Copper	81,594·0
Zinc	28,264·2
Lead	19,852·2
Tin	15,540·8
Nickel	1,428·7
Aluminium	10,369·2

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[1] In arriving at these total requirements, the requirements of (1) semis manufacturers, (2) manufacturers of die products, (3) castings and mouldings, (4) galvanising and electroplating industries and (5) chemical industries as requiring basic metals have been taken into consideration. The extent to which scrap goes into these manufactures has also been taken into consideration. The requirements of hospital equipment, surveying and drawing instruments, agricultural implements, printing presses and accessories and miscellaneous industries groups (as met partly of basic metals and partly of semis) have been worked out, particularly in the case of copper and zinc on 25 : 75 basis. The requirements of utensil manufacturers have been calculated on the basis of 40 : 60. The remaining end products which require only semis have been ignored as these have already been counted under the requirements of semis manufacturers. Thus, care has been taken to avoid duplication of requirements as the raw material passes from the moulders to the semis manufacturers and ultimately to the end-products manufacturers. The requirement is, thus, net requirement of virgin non-ferrous metals.

1.11 It may be seen that the annual allocations of non-ferrous metals especially copper to the small scale sector is hardly adequate to meet even a fourth of the total requirements.

1.12 Of the non-ferrous metals, aluminium is of special significance in view of the increasing production indigenously. It is felt that aluminium can be used as a substitute for copper in certain lines of production, thus reducing dependence on the import of this scarce metal. Small scale wire drawing units have been advised to utilize aluminium in place of copper. Utensil makers have also been advised to switch over to aluminium. It has, however, been found in practice that the share of aluminium allotted to the small scale industries is very inadequate to meet their requirements. There are 20 small scale units equipped with wire drawing plants and stranding machines and 93 more units equipped with wire drawing plants alone. The non-ferrous metals requirements of these units is of the order of 39,000 tons. The supply position of copper being what it is, the units are prepared to switch over to aluminium but the total quantity of aluminium wire rods allotted to these units from imported and indigenous sources during October 1963—March, 1964 period was only 5,500 tons. The aluminium utensils makers who were previously obtaining their requirements of semis from large scale re-rollers are now unable to get their supplies since the large scale re-rollers have themselves begun to fabricate the end-products.

(b) *Large scale sector*

1.13 The allocations to the Directorate General of Technical Development for non-ferrous metals during the last three half years are as follows[1] :—

Metal		Apr.—Sept.'62	Oct.'62—Mar.'63	Apr.—Sept.'63	Oct.'63—Mar.'64	Apr.—Sept.'64	Oct.'64—Mar.'65
						(Rs. in Lakh)	
Copper	..	587	627	575	727	720	740
Zinc	..	224	227	230	280	329	334
Lead	..	107	94	93	129	129	191
Tin*	..	172	152	163	209	238	241
Nickel	..	14	15	15	15	15	14
Aluminium	..	315	230	152	160	188	164
TOTAL	..	1,419	1,345	1,228	1,520	1,619	1,684

*Includes tin for the iron & Steel units (tin-plate producers).

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[1] *Source* :—Metals section of the Department of Mines & Metals, Ministry of steel & Mines.

1.14 It may be seen that the allocations to the Directorate General of Technical Development have shown a steeper rise during this period compared to the allocations to the small scale sector (as shown in Table 1.1 at the end of the chapter).

STEEL

(a) *Small Scale Sector*

1.15 The development of metal working and machinery industries is the most significant aspect of the small industry development during the last six or seven years. We would like to repeat here the findings of the Ford Foundation IPP Team. "In 1960 such units had a total output of Rs. 21,800 lakhs, employing 217,600 workers. In fabricated metal products small plants produced 60 per cent of the total output of all registered factories, with 66 per cent of the persons employed but only 41 per cent of fixed investment. In non-electrical machinery, small plants produce 46 per cent of gross output, employed 52 per cent of the workforce, and 35 per cent of fixed capital. The share of small factories in basic iron and steel (largely iron castings), non-ferrous metals products, and electrical machinery is also significant".[1] The scope for further development in metal working and machinery industries is enormous, provided the basic raw materials, viz., steel, is supplied in adequate quantities. Availability of steel, thus, is now the most important factor, determining the future of the small industry programme. Indeed, in our opinion, steel is the key to the healthy and vigorous growth of the small scale sector.

1.16 Pig iron, M.S. sheet (both galvanized and black plain), strips, tin plates, wire rods, M.S. bars and rods and light structurals are the main categories of iron and steel required by the small scale sector. The first six are still scarce. On the first three, there is a price and distribution control. The control has been withdrawn recently from wire rods and wires but their supply position is far from easy. For making up the shortages of scarce categories, particularly sheets, tin plates, wire rods, wires and tool and alloy steel are being imported. The availability of these items to the small scale sector is examined in this section.

Indigenous steel

1.17 (i) *Sheets* : The annual production and requirements of the various categories of sheets and their allotments in the last four years are given in Table 1.2 at the end of this Chapter.

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[1] IPP Team Report 1963 pp. 16—19.

1.18 It will be seen from that table that the demand for sheets has been increasing very fast. Their allocations were enhanced during 1963-64 but a drastic cut has been applied in 1964-65. The allocation during 1964-65 is one fourth of what was allotted during the previous year. The small quantity allotted also includes 9,000 tons of thicker sheets of 10-14 gauges and M.S. plates which were previously uncontrolled. The reason given for the small allocation during 1964-65 is that the allotments during the previous years were far too excessive and that on account of the huge outstandings, it is necessary to bring the allocations in line with what is actually available for distribution.

1.19 It is to be further noticed that sheets of gauges thinner than 10 were allotted during 1961-62 and 1962-63. The allocations during 1963-64 were confined to 16-20 gauges only. During 1964-65 a small quantity of B.P. sheets of gauges thinner than 20 has again been allotted. These changes cause much dislocation particularly when a large number of small scale fabricators require sheets of only of 22, 24 and 26 gauges. Further, hot rolled sheets, which are easier to manipulate, are not being allotted to small scale sector; only cold rolled sheets are from Rourkela and their prices are higher.

1.20 No galvanised or corrugated sheets have been allotted during the last three years on account of the defence needs and the requirements for the refugee camps. Though the shortage of G.P. sheets was made good to a certain extent by imports, lack of G.C. sheets has caused much inconvenience.

1.21 Prior to July-Sept. '64 period, one third of the allocations under SSI quota were planned and despatched on priority basis. From July-September, 1964, period, a revised procedure has been introduced for allocation of priority. Reasons for seeking priority in respect of each individual work order have to be indicated and these are scrutinized by the Steel Priority Committee.

1.22 The State Directors of Industries naturally find it difficult to collect the particulars of a very large number of small scale units to whom they allot the material. The revised procedure, therefore, is working to the disadvantage of the small scale sector.

1.23 A statement showing the estimated availability of sheets and plates during April-September, 1965, the quantities proposed to be distributed on priority basis and the quantity available to the small scale sector on a priority basis is given in Table 1.3 at the end of this chapter.

1.24 It will be observed that 60 to 80 per cent of the total indigenous production is allotted for priority requirements and the share of the small scale sector in this category in negligible.

1.25 This serious disadvantage to the small sector is the result of the present procedure whereby individual work order is to be indicated for the quantity allotted to each small unit. The number of small scale units being large and their individual requirements being small, it takes a long time for the State Directors of Industries to contact the units, assess their requirements, allot work orders and put up the cases to the Priority Committee. This procedure should, therefore, be reviewed.

1.26 We recommend that the State Small Industries Corporation in each State or agency nominated by the State Director of Industries might be permitted to open a single work order for each category of steel products on behalf of all the small scale units in the State. The SSI Corporation will also make the financial arrangements for implementing the order. The entire quantity allotted to the State might then be placed on the priority category. The SSI Corporation, in turn, will allot the material to individual small scale units and get itself reimbursed. In this way, the total number of work orders to be opened will be considerably reduced and the State Directors will also be able to give the necessary work orders soon after their allocations are known. The procedural requirements of the steel producers also will be met.

1.27 (ii) *Sheet Cuttings* : Though sheet cuttings is a controlled category, no regular allocation is made to the small scale sector. *Ad hoc* allocations are made to different States/individual units by the Iron and Steel Controller.

1.28 (iii) *Tin Plates* : Only cut-down and waste-waste categories of tin plates are allotted to the small scale sector. The allotments during the last three periods are given below :—

	Cut-down	Waste-waste
	(In Metric Tons)	
Jan.—Jun. 1963	3,000	3,000
Jul.—Mar. 1964	4,500	5,800
Apr.—Sept. 1964	3,000	1,500
Oct.—Mar. 1965	3,000	3,000

1.29 It will be observed that the allocations of cut-down and waste-waste during Apr.-Sept., 1964, have been very much reduced. This is perhaps due to the small arisings of these categories. The Steel Ministry has been repeatedly requested for allocation of prime quality tin plates to the small scale sector. The request has not been acceded to so far on the plea that the available quantities are small and reserved for the scheduled factories. It has, however, now been decided to allocate 6,000 tons of prime quality tin plates also from indigenous production to the small scale sector from Apr.-Sept., 1965, period. The allocation has since been made. The total allocations under these heads for the period Apr.-Sept., 1965, are as below[1] :—

Category	Allocation (Metric tons)
1. Prime Tin Plates	6,000
2. Cut-downs	4,000
3. Waste-waste	3,000

1.30 It will be noticed from the figures given below that the output of tin plates in the country has been steadily rising and the outstandings are also small[1] :—

Period	Production (Metric tons)
Jan.—June '63	42,600
July '63—Mar. '64	58,000
Apr.—Sept. '64 (estimated)	56,800
Outstanding orders as on 1-4-64	61,300

1.31 There is apparently no reason why small scale units, many of which have modern machinery and are producing products identical with those of the scheduled sector, should not get a higher share of the increasing indigenous tin plates production.

1.32 (iv) *Strip/Skelp* : No regular allocation of tested strip and skelp is made to the small scale sector. However, an allocation of 2,000 tons of Tata skelp and 9,500 tons of Rourkela wide strip has recently been made to two small scale units for the year 1964-65. It has also been agreed that the allotments of tested skelp would be made to other small scale units recommended by the Development Commissioner (Small Scale Industries).

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[1] *Source* :—CSIO

1.33 (v) *Pig Iron* : The allocation of pig iron for the small scale sector during 1962-63 was one lakh tons. As a result of repeated representations from the CSIO and the Federation of Associations of Small Industries in India, the allocation has since been substantially increased. For the year 1964-65, an allocation of 2,70,000 tons has been made. This quantity is allocated to the various States on the basis of the best off-take during the years 1960, 1961 and 1962. The supply position of pig iron has been comparatively easy during these years. Even so, our impression is that the actual demand for pig iron, which has been growing continuously, is much more than the allotments made.

1.34 (vi) *Billets* : No allocation of billets is made to non-registered re-rollers but many small scale re-rolling units have come up after decontrol of re-rollable scrap. Consequent on decontrol, the price of re-rollable scrap has gone up and the unregistered, small scale re-rollers are finding it difficult to compete with the registered re-rollers who get billets at fixed price. Though the non-registered re-rollers have come up in spite of the warning that they will not be entitled to the allotment of billets, the position needs to be reconsidered in view of the fact that the requirements of re-rolling capacity will increase during the Fourth Five Year Plan. Moreover, the unregistered re-rollers have installed, at considerable cost, modern equipment which can be put to advantage. We, therefore, feel that the case of these non-registered small scale re-rollers will have to be considered sympathetically. We understand that the Ministry of Steel & Mines proposes to appoint a committee to go into this question.

1.35 We recommend that a reasonable quantity of re-rollable scrap available with the main producers and defence, railway establishments etc. might be allotted to the State Small Industries Corporation for distribution to the non-registered small scale re-rollers.

1.36 (vii) *Wire rods & wires* : Since March, 1964, the distribution and price control has been withdrawn from wire rods and wires. The supply position of these categories has, however, worsened. A large number of small scale units and associations have represented that they are experiencing great difficulties due to acute shortage of G.I. and H.B. wires. It will be observed from the figures given below[1] that the prices of wire rods and wires which had shot up in April, 1964 after the decontrol have not come down :—

(Per metric ton)

Category	Bombay market prices in April'64	Bombay market prices in Sept. '64	Bombay market prices in Feb. '65	Controlled prices (J.P.C. prices)
	Rs.	Rs.	Rs.	Rs.
1. Wire rods ..	860	880	880	690
2. H. B. Wire ..	1,100/1,400	1,100/1,500	1,100/1,500	977/1,026
3. Galvanized Wire	1,700/2,300	1,700/2,500	1,600/2,200	1,090/1,154
4. Annealed Wire ..	1,200/2,100	1,200/2,000	. 1,200/2,000	996/1,045

Despatches of Steel

1.37 What is really significant for the small scale sector is not the allocation made but the actual despatch of steel from the Mills and their delivery to the small units. It is a common experience that the despatches are very much delayed, and material is not forthcoming even after two to three years of the allocations. The total despatches of steel during the past four years and the despatches to small industries under both SSI and SPI quotas are given below[2] :—

Year	Total despatches	Despatches to small industry	Percentage of despatches to small industry to total despatches
1957-58	1,051·6	55·2	5·3
1958-59	1,176·6	94·9	8·0
1959-60	1,471·8	83·5	5·7
1960-61	1,754·5	22·9	1·3
1961-62	2,693·1	58·8	2·2
1962-63	3,482·7	NA	NA
1963-64 (11 months) ..	3,680·0	NA	NA

सत्यमेव जयते

Note: Despatch to small industry=Quotas—SPI (States)+SSI(States).
NA—Not readily available in CSIO.

It will be observed that the despatches to small industries form a very small percentage of the total despatches. While the total despatches were increasing, the despatches to the small scale industries (both against SSI and SPI quotas) declined during 1960-61 and 1961-62. The percentage of despatches to the small scale industries to total despatches was only 1.3 and 2.2 respectively during these periods.

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[1] *Source* : CSIO. The figures relate to controlled categories only.

[2] *Source* : CSIO. The figures relate to controlled categories only.

Separate figures of despatches to small industries after 1961-62 are not available.

Imported Steel

1.38 As the indigenous production is insufficient, imports of scarce categories are being allowed. For this purpose, allocations of foreign exchange are made to the CSIO which in turn distribute them amongst the States. The allocations made during the last three years are given in Table 1.4 at the end of this chapter.

1.39 It will be observed that during Oct. '63-Mar. '64, the allocation to the small scale sector formed only 13 per cent of the total foreign exchange available for the import of steel. During Apr.-Sept. '64, the foreign exchange allocation to the small scale sector, which was earlier cut, has been restored to the Oct. '61-Mar. '62 level. The increased allocation, however, still falls far short of the requirements. In Oct. '61-Mar. '62, the small scale sector was allocated Rs. 650 lakhs. If the amount licensed for tool and alloy steel is also included, the allocation would rise to Rs. 860 lakhs. The present allocation is, thus, less than what the level of development and requirements justified even two years back.

1.40 One significant point is that a greater part of the allocation during Apr.-Sept. '64 and Oct. 64-Mar. '65 is that of rupee exchange. In the past, the MMTC had arranged imports of about 73,000 tons of steel from rupee countries. Considerable difficulties are, however, being experienced at present because most of the rupee countries are not offering the required categories against the quantities stipulated in the trade plans. Against the allocation of Rs. 366.45 lakhs for Oct. '63-Mar. '64 and Apr.—Sept. '64 periods together, the MMTC have so far been able to negotiate imports for Rs. 163 lakhs only. In view of this and the decreased free foreign exchange allocation during the current year, it is doubtful if the increase in the SSI allocation during 1964-65 will bring any tangible benefit. It is also to be noted that for the latest half year, the allocation from free sources has been cut from Rs. 290 lakhs to Rs. 86 lakhs. This, and also the doubt about the scope of availability from rupee sources, makes the position most gloomy.

1.41 Since ceilings are being allotted to State Directorates of Industries for imported steel, the gap between demand and supply is not readily known after Apr.-Sept., 1961. However, an idea of the requirements as assessed by the State Directors of Industries and the amount of foreign exchange made available can be had from the following table[1] :—

Value of Import Applications sponsored by the Directors of Industries for Import of Steel & Foreign Exchange made available.

(*Figures in lakhs of Rs.*)

Licensing period	Value sponsored	Amount of foreign exchange made available
Apr.—Sept. '59	523·60	200·00
Oct. '59—Mar. '60	1,059·00	300·00
Apr.—Sept. '60	1,200·00	475·00
Oct. 60—Mar. '61	1,500·00	425·00
Apr.—Sept. '61	*	654·00
Oct. '61—Mar. '62	—	650·00
Apr.—Sept. '62**	—	450·00
Oct. '62—Mar. '63	—	350·00
Apr.—Sept. '63	—	350·00
Oct. '63—Mar. '64	—	400·00
Apr.—Sept. '64	—	606·45
Oct. '64—Mar. '65	—	497·00

*The State Directors of Industries had to limit their recommendations within the State ceilings which were introduced from Oct.' 60—Mar.' 61 period.

**Allocations from Apr.—Sept. '62 period included tool and alloy steel also. Prior to this allocations indicated relate to M.S. items, only.

1.42 Since Apr.-Sept. '61, the value sponsored is not shown because the State Directors know their ceiling and operate within it. It is evident from the table that in the case of imported steel also, the allocations do not meet even a third of the requirements of the sector.

OTHER SCARCE RAW MATERIALS

1.43 Some of the other scarce raw materials required by small scale units are considered below.

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[1] *Source:* CSIO.

(1) Raw Materials for Soap Industry

1.44 Caustic soda is one of the basic inorganic chemicals required by a large number of chemical industries. Its major use, however, is in the soap industry. The production of soap in the small scale sector has been estimated at over 4.0 lakh tons, which is almost double that of the large scale sector. However, except for a supply of 5,000 tons by the STC out of a total import of nearly 40,000 tons, the requirements of the small scale units are to be met from the open market. It is reported that the open market price is about Rs. 1,200 to 1,400 per ton while the large scale manufacturers are able to get it at about Rs. 900 per ton direct from the producers.

1.45 The soap industry also needs imported raw materials like coconut oil, palm oil and mutton tallow. These raw materials were previously allowed to be imported by small scale units but recently imports have been totally banned and permitted only against export of groundnut oil. It is not possible for the small scale units to organise export of groundnut oil to earn entitlement to these hard oils. The 3,500 small scale units are thus facing a difficulty.

(2) Polyethylene

1.46 Consequent on the decision of the Ministry of Industry to develop plastic processing capacity in the small scale sector, about a hundred units producing polythylene film have been started. However, the production of polyethylene (supplied by ICI and Union Carbide) had to be curtailed due to shortage of alcohol. In order to improve the situation, some imports are made by the STC but the distribution is done through ICI and Union Carbide according to their general policy. These firms supply the material on the basis of past consumption and some of the small scale units being new are unable to secure supplies.

(3) Raw Materials for Paint Industry

1.47 The paint industry needs titanium dioxide, red lead, zinc oxide etc. which are in short supply. There is now only one firm manufacturing titanium dioxide but most of its supplies go to the scheduled units and the small scale units are reported to be facing difficulty in obtaining the material. Similar difficulties are reported of red lead and zinc oxide also.

(4) Soda Ash

1.48 This is an important raw material required for the manufacture of glass, sodium silicate and other chemicals. This material is in short supply and it is understood that the distribution is informally controlled by the DGTD. It is reported that small scale units are unable to get the allocation of this item.

(5) Pharmaceuticals and Drugs

1.49 All pharmaceuticals and Drugs units require a licence under the Drugs Act. The Drugs Act is enforced by State Drug Controllers and is meant for enforcing uniform standards regarding quality control on all units irrespective of their size. The essentialities of the different items of raw materials to the units in the small scale sector are certified by the State Drug Control Administrators while the units in the large scale sector get their allocations from the DGTD. At our request the Directorate General of Health Services collected information from the various State Drug Controllers. The information received from Maharashtra, Gujarat, Mysore and Assam States was reviewed. The DGHS has stated: "It will also be observed from the values of essentiality certificates and the value of import licences granted from free sources by the Joint Chief Controller of Imports and Exports that there is a great disparity between recommendations and imports and licensing is hardly to the extent of 35 per cent to 40 per cent". He has further stated that some of the manufacturers have complained that local manufacturers are not in a position to supply (especially to the small scale units) raw materials like calcium glycerphosphates, calcium gluconate, yeast powder, sulphadiazine, ethistrone etc. The import policy for raw materials, as adopted by the various import control authorities, was also discussed at the last meeting of the Drugs Consultative Committee (which is a statutory body under the Drugs and Cosmetics Act 19........consisting of representatives from the Central and State Drug Control authorities) held at Bangalore in May, 1964. Relevant extracts from the minutes of the meeting are given below :—

1.50 "It was represented that the JCCIs (Joint Chief Controllers of Imports) at the ports exercised a cut over the recommendations made by the State Drugs Control authorities in regard to the quantity of raw materials required by small scale manufacturers and that the extent of this cut varied from port to port. After discussion, it was agreed that the question should be taken up with the CCI (Chief Controller of Imports) so as to ensure (i) that as far as possible, the recommendations made by the State Drug Control authorities in regard to raw materials requirements of small scale units should be licensed in toto by the JCCIs at the port, (ii) that if a monetary cut became inevitable, the extent of the cut should be uniform at all the ports, (iii) that the allocation of foreign exchange for the licensing of raw materials at the ports should be based on the number of drug manufacturers available in that area.

1.51 From the details furnished for Gujarat and Maharashtra States, the following particulars are extracted :—

State	Value of Essentiality Certificates issued during 1963-64	Amount of import licences granted
	Rs.	Rs.
Gujarat	16·31 lakhs	9·79 lakhs
Maharashtra	24·04 lakhs	9·59 lakhs

1.52 It is thus evident that even in the case of an industry like drugs and pharmaceuticals, the small scale units are at a considerable disadvantage.

सत्यमेव जयते

1.53 Shortage are also being felt in respect of indigenous drugs like chloromphenice, tetracycline, predonisolone, vitamins, hormones etc. It is reported that the large scale units manufacturing these materials also convert a large part of it into finished goods and have little inclination to supply them to small scale units. It is understood that the total value of import licences issued to small scale units manufacturing drugs and pharmaceuticals is about Rs. 105 lakhs per annum whereas the production is estimated at about Rs. 21 to Rs. 25 crores.

1.54 Similar difficulties are also reported by small scale units requiring refractory coal, imported paper for paper conversion, paper products etc.

TABLE 1·1

Statement showing total Availability of Foreign Exchange for Import of Non-ferrous Metals and Share of the Small Scale Sector

(Figures in Lacs of Rs.)

Name of the Metal	Oct. '61—March '62			April—Sept. '62			Oct. '62—March '63			April—Sept. '63		
	Total allocation	Share of small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage
1. Copper ..	847	290·00	34·20	1018·40	445·40	43·70	955·00	360·00	37·70	935·00	360·00	39·40
2. Zinc ..	306	80·50	26·00	358·00	133·60	37·00	319·00	92·00	29·00	320·00	90·00	28·10
3. Lead ...	110	2·50	2·30	109·50	2·50	2·30	96·15	2·00	2·10	94·50	2·00	2·10
4. Tin ..	227	75·00	33·00	209·50	37·50	17·90	210·00	58·00	27·60	213·00	50·00	23·30
5. Nickel ..	25·68	8·00	32·00	22·00	8·00	36·00	22·00	7·00	32·00	22·00	7·00	32·00
6. Aluminium	490	37·50	7·70	347·50	32·50	9·00	272·00	42·00	15·40	122·40	42·00	34·30
TOTAL	2,005·00	493·50	24·60	2064·00	659·50	31·90	1874·15	561·00	29·90	1706·90	551·00	32·30

TABLE 1·1—*contd.*

(Figures in Lack of Rs.)

Name of the Metal		October—March. '64			April—Sept. '64			Oct. '64—March '65		
		Total allocation	Share of small scale sector	Percentage	Total allocation	Share of Small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage
1. Copper ..	..	1087·00	360·00	33·10	1107·00	387·00	35·00	1046·00	371·13	35·5 out of 1965 zinc pl value.
2. Zinc ..	..	370·00	90·00	24·30	429·00	100·00	23·30	366·00	*5000·00	Not known
3. Lead ..	..	135·00	6·00	4·40	135·00	6·00	4·40	210·40	12·00	5·7
4. Tin ..	..	267·00	58·00	21·70	313·00	75·00	24·00	316·00	75·00	23·7
5. Nickel ..	..	22·00	7·00	32·00	22·00	7·00	32·00	20·00	6·00	30·0
6. Aluminium	..	230·00	70·00	30·40	208·00	20·00	9·60	204·00	40·00	9·6
TOTAL	..	2,111·00	591·00	28·00	2,214·00	595·00	27·00	2,162·40	504·13	+5000 tons of zinc

Source: Metals Section, Deptt. of Mines & Metals, Ministry of Steel & Mines. The table was compiled in CSIO.

*Tons.

TABLE 1.2

Annual Production and Requirements of Various Categories of Sheets and their Allotments during 1961-64

Figures in '000 M. tons

	Outstanding orders with producers (1)	Availability from indigenous production (2)	Imports (3)	Total availability (4)	Demand SSI Sector (5)	SSI allocations (6)	%of SSI allocation to total availability (7)	%of SSI Allocation to the demand from the Sector (8)
1961-62 as on 1-6-61								
Black Plain sheets (16 G & thinner)	211	161	115	276	246	61	22·1	24·8
G. S. Plain	46	21	23	44	138	30	68·2	21·7
G. S. Corrugated	173	116	Nil	116	13	6	5·2	46·2
TOTAL	430	298	138	436	387	97	22·2	24·4
1962-63 as on 1-9-62 (16 G & thinner).								
Black Plain Sheet	414	350	55	405	276	60	14·81	21·74
G. S. Plain	183	30	20	50	172	—	—	—
G. S. Corrugated	376	118	—	118	24	—	—	—
TOTAL	973	498	75	573	472	60		

TABLE 1.2—*contd*

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1963-64 as on 1-7-63 (16 G to 20 G)								
Black Plain Sheets	582	377	40	117	295	90	21·5	30·50
G. S. Plain	200	40	Nil	40	181	Nil	—	—
G. S. Corrugated	450	113	Nil	113	25	Nil	—	—
TOTAL	1,232	530	40	570	501	90		
1964-65 as on 1-4-64 (10 G & thinner)								
Black Plain sheets	690	321	N.A.	N.A.	481@	18	5·6*	3·6
G. S. Plain	186	29	Nil	29	205@	Nil	—	—
G. S. Corrugated	443	118	Nil	118	36@	Nil	—	—
Plates	1,105	378	N.A.	N.A.	81@	5	1·3*	6·16
TOTAL ..	2,424	846	N.A.	N.A.	803	23	8·8*	2·9

*Since import figures are not available the figures marked *represent percentage of SSI allocation to indigenous production. Since the demand figures were available for six months, they have been doubled to arrive at the annual demand "The steep rise during 1964-65 is also due to the inclusion of plates which have been brought under control.

TABLE 1.3

Estimated availability of sheets during Apr.—Sept. '65 & quantities proposed to be distributed on priority basis.

(Quantity in Metric Tons)

Category	Estimated availability for (April—Sept. 1965)	Priority demand received	Priority demand covered by work order	Percentage earmarked for priority	Quantity earmarked for priority allocation	Priority accorded to small scale sector
B.P. 10—14 G	75,740	54,329	44,753	75	56,805	443
16·20	87,666	211,587	192,545	90	70,800	756
Thinner than 20	29,194	55,090	51,183	80	23,356	687
Plates below 8 mm	55,520	56,423	34,491	90	49,968	240
8 mm and above	108,400	116,496	67,396	90	97,560	—
G. P. Sheets	15,700	17,754	10,866	75	11,775	2,114
G. C. Sheets	58,050	31,135	24,193	60	34,800	113

TABLE 1.4

Allocation of Foreign Exchange for Import of Steel

(Figures in Lakhs of Rs.)

	Oct. '61—March' 62			April—Sept.' 62			Oct.'62—March'63			April—Sept.' 63		
	Total allocation	Share of small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage
Iron & Steel												
(i) Free	1,150	350	30	800	450	56	550	250	45	550	250	45
(ii) Rupee	400	300	75	400	Nil	Nil	200	100	50	300	100	33
(iii) Others including D.L.F. etc.	1,100	Nil	Nil	700	Nil	Nil	1,750	Nil	Nil	2,217	Nil	Nil
TOTAL ..	2,650	650	25	1,900	450	24	2,500	350	144	3,067	350	11

TABLE 1.4—*Contd.*

(Figures in Lakhs of Rs.)

	Oct.'63-March'64			April-Sept'64			Oct.'64-March'65		
	Total allocation	Share of small scale Sector	Percentage	Total allocation	Share of small scale sector	Percentage	Total allocation	Share of small scale sector	Percentage
Iron & Steel									
(i) Free	1,100	350	32	900	290	32	296	86	29
(ii) Rupee	750	50	7	1,124·69	316·46	28	2,115	375	18
(iii) Others including D.L.F. etc. ..	1,150	Nil	Nil	1,675	Nil	Nil	1,079	28	3
TOTAL ..	3,000	400	13	3,699·69	606·45	16	3,490	489	14

SOURCE : Dept. of Iron & Steel, Ministry of Steel & Mines. The table was compiled in CSIO.

CHAPTER TWO

THE PROCEDURE

2.1 The system of allocation of scarce raw materials and inspection of their utilisation vary as between the large scale and the small scale sectors for different types of scarce raw materials. The present position in this regard is described in this chapter.

SPARE PARTS, COMPONENTS, RAW MATERIALS, ETC.

2.2 The Chief Controller of Imports and Exports issues licences to actual users for the import of raw materials, spare parts, components and machinery for use in their own manufacturing processes. Broadly, there are three categories of actual users—(1) scheduled industries borne on the books of the DGTD, (2) scheduled industries like textiles, jute, etc., not borne on the books of the DGTD, as also non-scheduled industries like coir, coffee, tea, silk, etc., and (3) small scale industries. The medium scale industrial units (i.e. those with a fixed capital investment between Rs. 5 lakhs and Rs. 25 lakhs) are either on the lists of the DGTD or other authorities like the Textile Commissioner, Jute Commissioner, etc., and the procedure for licensing for them is the same as in the case of the corresponding large scale units.

(a) Large Scale Units Borne on the Lists of the DGTD

2.3 The industrial units on the lists of the DGTD are all licensed and their production programmes and production capacity are approved in advance. The units submit production returns regularly to the DGTD and so their performance is expected to be under continuous watch. Their applications for import of raw materials, components, etc., are made direct to the DGTD, the sponsoring authority. The sponsoring authority forwards their applications to the CCI&E for issue of licences specifying the actual amount and the name of the components to be licensed. For this purpose, the DGTD estimates, Directorate-wise, the amount of foreign exchange required for imported components. The DGTD is allotted, every half year, a ceiling of foreign exchange, depending upon the total availability for commercial imports and the total estimated requirements. If the allocation falls short of the total estimated requirements, suitable cuts are imposed for the individual firms depending on the priority of their end products and such other considerations. The CCI&E formally issues the licences as per the recommendations of the sponsoring authority.

(b) Other Large Scale Industries

2.4 The industries listed under category 2 above are required to be registered with authorities like the Textile Commissioner, Tea Board, Coffee Board, Directorate of Sugar and Vanaspati, Ministry of Petroleum and Chemicals, Coal Controller, etc. Each of these sponsoring authorities is allotted a specific ceiling of foreign exchange every half year to meet the import requirements of the units on their lists. The registered units apply for import licences direct to the CCI&E but obtain from the sponsoring authority an essentiality certificate separately. In granting the essentiality certificate, the sponsoring authority considers the previous performance of the unit and the availability of foreign exchange, and so there is, ordinarily. no need for the CCI&E to apply any cut on their essentiality certificates.

(c) Small Scale Industries

2.5 The small scale sector, since inception, has been a "free sector" in the sense that an entrepreneur could set up an industrial unit of the size of his choice, at a place of his choice, without any prior permission, subject only to the overall condition that the fixed investment should not exceed Rs. 5 lakhs. His actual performance, though mentioned in the application for essentiality certificate, is not in many States watched continuously. The total production in the sector is not regularly estimated for consideration in allotting ceilings of foreign exchange.

2.6 The small scale actual users are required to submit their applications direct to the Office of the CCI&E. They are, however, required to obtain an essentiality certificate from the concerned Director of Industries, who does not have a separate ceiling of foreign exchange to operate. The Director, therefore, assesses only the essentiality of the raw materials without knowing the availability of the foreign exchange. After scrutinising these essentiality certificates, the CCI&E's Office issues import licences, depending upon the availability of foreign exchange, applying suitable cuts on the recommendations of the State Directors of Industries. The CCI&E's Office, therefore, does not assess the relative needs of the different units and is guided only by the foreign exchange left with it for such disposal.

NON-FERROUS METALS

2.7 The Non-ferrous Metals Control Order was promulgated in 1958 and the distribution of non-ferrous metals, copper, to start with, has been brought under control since then. Other non-ferrous metals have not yet been brought under this Order.

(a) Large Scale Sector

2.8 Since the DGTD has, as already mentioned, full details of the production of the different units on their lists, a fairly accurate estimate of their requirements of non-ferrous metals could be easily made. The initial estimate of the total requirements of the large scale sector and of the individual units was made on the basis of the known previous utilization. Since new units are all licensed, their requirements could be determined and the total requirements revised accordingly without any difficulty. The DGTD gets a bulk allotment of non-ferrous metals for the units on its lists and then distributes them to the individual units on the basis of their requirements. Where the availability falls short of the total requirements, suitable cuts are imposed on the basis of the priorities of the end products and such other criteria.

(b) Small Scale Sector

2.9 In the case of the small scale sector, the requirements of the units in existence in 1957, i.e. before the issue of the Non-ferrous Metals Control Order, was estimated by the State Directors. Bulk quotas were allocated to them for distribution to the small scale units in their respective States, at their discretion. Even in the case of these units, no accurate assessment of their requirements could be made for want of previous production figures. Moreover, the term 'actual users' in the non-ferrous metal industry concerns a number of groups such as the melters who produce ingots, the re-rollers who produce sheets and the metal workers who produce the final product. In this situation, the raw material passes in stages from the melters to the rollers and eventually to the manufacturers of the final product and it is difficult to assess the figures of actual requirements unless the movement of the material through these three stages is carefully co-ordinated. In its absence, the Directors of Industries have been given discretion to make *ad hoc* allocation to the units in their States keeping in view the interests of the several groups of non-ferrous metal consumers. It has been represented to us that in making the initial allotment, soon after the Non-ferrous Metals Control Order came into force, the units borne on the lists of the DGTD were granted allotment on the basis of 90 per cent of their consumption in 1956 while the small scale units were granted a quota only to the extent of 33-1/3 per cent of their consumption. The allocation to the small scale sector was as per the production pattern in the units in 1956. It may be pointed out that most of the small scale units at that time were engaged in utensil making. Since 1958, however, hundreds of such units manufacturing components/industrial goods have come into existence.

STEEL

A. Imported Steel

(*a*) *Large scale sector*

2.10 As in the case of other items, the DGTD is aware of the requirements of each of the units on its lists and, therefore, is able to make a fairly accurate estimate of the total requirements of both indigenous and imported steel. The DGTD is also allotted a ceiling for imported steel which, in turn, is distributed to the different units according to their known requirements and availability.

(*b*) *Small scale sector*

2.11 Foreign exchange allocations for import of steel either from free sources or from rupee payment sources are made direct to the Directors of Industries on an *ad hoc* basis (depending mostly on the availability of foreign exchange) who, in turn, distribute the allotted exchange to small scale units in their respective States. The Director of Industries is aware of both the demands from his units and his own availability and is, therefore, able to make necessary adjustments.

B. Indigenous Steel

2.12 In the case of indigenous steel, control on almost all items, except sheets, has been lifted. In the case of the decontrolled items there is no State-wise allocation. The procedure for allocation of steel to individual units varies from State to State.

OTHER SCARCE RAW MATERIALS

2.13 As mentioned in our terms of reference, this category includes basic organic chemicals and intermediates; basic inorganic chemicals like caustic soda, soda ash, titanium dioxide, etc., pharmaceuticals and drugs, plastics, synthetic and natural rubber, etc. These items are being increasingly produced in India, but imports, both from free and rupee sources, are also permitted to supplement indigenous production.

2.13.1 Where the items are imported, allocations are made either to DGTD for further distribution to the units on their lists or to the State Directors of Industries for distribution to small scale units.

2.13.2 In the case of items produced indigenously, the distribution is supposed to take place through the normal trade channels.

2.13.3 According to Sec. 18-G of the Industries (Development and Regulation) Act, a licensed unit can be called upon to distribute its products according to the directions of the Government. This empowers the Government to allocate the production of units producing basic raw materials/intermediates to other units which further process the raw materials. But it is understood that this provision is seldom invoked. It is understood that the DGTD informally directs producers of basic raw materials/intermediates to supply the required quantities to the consuming units on its lists. The whole arrangement takes the shape of a normal business transaction. The small sector is unable to get similar access to large producers of basic raw materials/intermediates and has to resort to the open market. In the case of items like caustic soda and cycle tyres and tubes, some arrangements were tried by the Government, but they did not work to the satisfaction of the small scale units.

INSPECTION OF UTILISATION

(a) Large scale sector

2.14 It has been stated by DGTD[1] that "uptill now there has been no regular system of inspection of units due to shortage of staff and officers in the Directorate General of Technical Development. Whenever a Development Officer or Assistant Development Officer is required to attend meetings of committees, Development Councils, panels, etc., outside Delhi, he also avails of the opportunity to visit the factories in and around the place of meeting during the short period at his disposal.

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[1] *Source* :—A note submitted to the Committee by DGTD.

However, recently a system has been introduced by which before any new unit is recommended for import of raw materials/components or recommended for allocation of controlled raw materials, the factory should be inspected by an officer to ascertain the progress made in installation of plant and machinery, construction of building, etc. Recommendation is made only when the DGTD is satisfied that sufficient progress has been made by the scheme and plant and machinery have started arriving and the production is likely to be started in the next six months.

"Every unit borne on the list of the DGTD furnishes its production return every month on a voluntary basis to the technical directorate responsible for development of the industry to which the product manufactured by the unit belongs. The information is furnished in the prescribed proforma. The figures of individual units are treated as confidential and, as such, these are not normally divulged without the consent of the unit concerned. Consolidated production and capacity figures for the industry as a whole are compiled and furnished every month to the Central Statistical Organisation for publication in the bulletin entitled "Monthly Statistics of the Production of Selected Industries of India".

(b) Small Scale Sector

2.15 The State Directors of Industries are responsible for the inspection of utilization of scarce raw materials by industrial units. The frequency and the type of inspection vary from State to State. Generally speaking, units are inspected at least once a year by a technical officer of the rank of an inspector attached to the District Industries Officer/Asstt. Director of Industries. In view of the large number of units to be inspected, the limited number of technical personnel available for inspection work and the level at which it is conducted, it is possible that at least in some States the inspection is not as regular and as effective as it is expected to be.

2.15.1 The system of inspection of utilization seems to need considerable improvement in both the sectors. As regards the small scale sector there is a feeling that at least in some States, inspection is rather rigid.

2.15.2 We understand that the State Directors of Industries in some cases, inspect large scale units also at the instance of the DGTD. The State Directors of Industries who attended our meeting said that it would be desirable to extend this practice to all the States. We feel that it will be useful to have annual inspection of all industrial units, large and small, according to a uniform procedure drawn up jointly by the DGTD and the CSIO.

2.15.3 The system of allocation of raw material to units in the large scale sector, whereby ceilings are allotted to the sponsoring authorities on the basis of supposed performance of individual units, is working to the satisfaction of that sector.

2.15.4 In the small scale sector, however, the position is different. In the case of CCI&E items, the sponsoring authorities do not know their ceilings but testify 'essentiality' while the licensing authority administers cuts without knowing either previous performance or the priority of the end product or the technical imperatives of the imports. In the case of the other items like non-ferrous metals, imported steel and certain imported basic raw materials/intermediates, even though the State Directors know their ceilings (which are based on availability) they do not have, in many States, estimates of production capacities/past production in a readily usable form. They cannot also determine the overall, national priorities of the end products. In many States, they do not have the technical personnel needed to determine the qualitative and quantitative 'essentiality' of scarce raw materials required by individual units. Moreover, new entrants into the sector have to be encouraged, if necessary, by allotment of scarce raw materials. Therefore, allotment of ceilings to the State Directors and allotment by them to individual units have always remained '*ad hoc*'. The foreign exchange difficulties affect the *ad hoc* allocations more seriously than others.

2.15.5 The growth of modern small scale industry in India has been hailed as one of the "most significant features of India's recent development".[1] An important factor which contributed to this rapid growth is the freedom of the prospective entrepreneur to choose his line of industrial activity and start the enterprise without obtaining an industrial licence. This policy of encouraging the development of the sector has yielded results and should be continued. But we feel that simultaneously attempts should have been made to assimilate the new units into the industrial fabric of the country by providing their

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Source : IPP Team Report, page 14.

raw material requirements on a more systematic and accurate basis rather than letting the things remain *'ad hoc'* over a period of time.

2.15.6 The International Perspective Planning Team repeatedly emphasized in their report that "small scale units are presently seriously handicapped in comparison with the larger units by inequitable system of allocation for scarce raw materials and imported components"[1]. This inequality, it would appear, is inherent in the present system of allocation.

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[1] *Source* : IPP Team Report Page 2.

CHAPTER THREE

DISABILITIES OF SMALL INDUSTRIES

3.1 The present system of allocation of scarce raw materials to the small scale sector whereby ceilings are allotted either to the State Directors of Industries or to the Chief Controller of Imports and Exports on an *ad hoc* basis, without a realistic estimate of the import requirements of the sector, has (as examined in chapter two) led to inadequate allocations to the sector. Besides, the system has resulted in various other disabilities to the sector in the absence of meaningful central co-ordination of the entire work relating to development both in the large and small sector. These disabilities have been voiced by small industrialists and their associations in various resolutions and representations during the last two or three years, but could not be removed since they were inherent in the system itself. These are examined in this chapter.

(1) Inadequate Allocations

3.2 The total allocations of various items of scarce raw materials to the small scale sector, as shown in chapter one, are inadequate to meet the increasing demands. Also, the allocations to this sector are proportionately less compared to those in the large scale sector as has been pointed out by various authorities who studied this problem during the last two years.

(a) *The International Perspective Planning Team*—The IPP Team which assessed the position of the small scale units in 1963 initiated a number of special studies in several States to study their raw material problem. The Team concluded an analysis of these studies by saying that "a number of large firms producing similar products were checked as to the allocations they received at fixed prices through the Departments. In contrast, smaller competitors received allotments to cover only 33 per cent to 40 per cent of one shift requirements. There is an extreme range of the ratios of allotments to small firms for one shift of operation. Some small firms buy all their raw materials and components in the black market. The largest group seem to cover about one third of one shift capacity; few get about 75 per cent. The percentage of capacity covered by allocations appears to be primarily on the size of the firm. It has little, if any thing, to do with the priority of the product being manufactured. It is all too evident that the allocation system works to the advantage of the larger firms at the expense of the small ones." It is, thus, evident that the present system is inequitable not only as between the small scale and the large scale sectors but as between the units in the small scale sector itself.

(b) *The CSO Study*—The Central Statistical Organization published (in July, 1962) a brochure "Utilization of Installed Capacity in Selected Industries of India, 1957-61". The data in the brochure were compiled from the issues of "Monthly Statistics of the Production of Selected Industries of India" which included data supplied by the DGTD on the large scale industries registered with them. Out of 215 industries for which the utilization of installed capacity was examined, in the case of only 27 industries, the utilization was less than 40 per cent.

3.2.1 In the case of small scale industries, no comparable data are available. However, a study by the Directorate of Industries, Maharashtra State, at our instance, has thrown useful light on the subject. The relevant data are given below :—

	Engineering industries	Chemicals and paper conversion industries	Non-ferrous metal industries
(*a*) Number of categories of industries covered	11	7	9
(*b*) Number of units covered ..	288	81	78
(*c*) The average annual turn-over per unit on value (it will be seen that they contribute a sizeable amount to country's production (Rs. lakhs)	1·93	2·92	7·70
(*d*) Variation in the un-utilised capacity in these units (per cent)	39 to 85	3·50 to 95·0	12·0 to 92·0
(*e*) Estimated average un-utilized capacity (per cent)	47	65·0	52·0
(*f*) Average ratio of consumption of allocated raw materials to capacity per cent)	37	10·9	7·0
(*g*) Average ratio of dependence on other sources to total consumption (per cent)	58	52·5	69·0

Further Statewise details are given in Table

3.2.2 A study conducted by the Federation of Associations of Small Industries of India in the Guindy Industrial Estate disclosed that out of the 30 units, for which information was collected, only 8 units were getting raw material—either allotted or through open market—to utilize 50 per cent or more of their production capacity. The other 22 units were unable to utilize even 50 per cent of their production capacity. In view of the fact that the units in the Guindy Industrial Estate are equipped with modern machines and are comparable in all respects to similar units in the large scale sector, the disadvantage to units in the small sector is obvious.

3.3 It is, thus, evident that the utilization of capacities in the small scale sector is much lower than in the large scale sector.

(2) Competent Small Scale Units are at a Considerable Disadvantage

3.4 The system of *ad hoc* allocations to small units without reference to the priorities of end-products and the needs of imported raw materials or components to produce their end-products has led to other disabilities whereby competent technicians coming forward to undertake the manufacture of sophisticated items are unable to secure adequate raw materials. Quite a number of instances of such disabilities have been brought to the notice of the Committee. One such is of a firm, manufacturing lead pigments and oxides (the only one in the small scale sector), with an installed capacity of 720 m. tons per year. Its annual allotment of pig-lead is 36 tons as against 3,000 tons and 1,000 tons per annum to two large scale units. Another instance is of a small scale storage battery making unit. As against its annual requirement of 168 tons of pig lead, it was given 1 ton per half year while its competitors in the large scale sector got their full requirements.

(3) Lack of Flexibility

3.5 The DGTD has a system whereby certain parts/components that are banned for general import could be licensed for parties requiring them on their specific recommendation. This facility is not available to the small scale sector in view of the large number of licensing and sponsoring authorities involved. The following is an illustrative list of items permitted to be imported by units in the large sector on the specific recommendations of the DGTD which are not allowed for the Small units even if the end-products require their use :—

(i) Dies and taps.

(ii) Laminated sheets (for mica).

(iii) Cadmium anode.

(iv) Aromatic chemicals, natural essential oils etc. (very small quantities have recently been allowed to small units on very special recommendations).

(v) Aerolite FFD (urea resin required for radio cabinet making).

(vi) M.S. free cutting bars, rounds, squares, hexagonals.

(vii) Oxide, battery.

(viii) Tungston formulations.

(ix) unsensitized paper rolls.

(x) antimony which is an essential material necessary to give strength to other soft materials like pig lead, copper, zinc etc.

(xi) Carbon black for tyre retreading units.

3.6 Certain types of indigeneous raw material are not allowed to small units at all, even though the end-products necessitate their use and small units are known to be producing those products.

(a) Billets for non-registered small scale re-rollers.

(b) Prime quality tin plates. The indigenous supply of this item has increased during the last three years from 42,600 tons to 64,000 tons. However, till recently, the small units were not allowed prime quality tin plates. On repeated representations, now, a small and very inadequate quantity is being supplied.

(4) Growth Restricted

3.7 In view of the limited foreign exchange made available for import of components/spares, raw materials, non-ferrous metals, steel etc. under the *ad hoc* allocation to the small scale sector, there is complete stoppage of growth in certain lines. However, new units or expansion of existing units is believed to have been permitted in the large scale sector for the same items. This restriction, which has worked unilaterally against the development of the small scale sector, is obviously due to the limited ceilings allotted to the sector. Thus, *ad hoc* allocations have resulted in serious restriction to the growth of the small sector.

The Small Scale Industries Board in October, 1960 recommended that no additional capacity should be allowed to be created in the sector for non-ferrous metal processing industries. However, in the large scale sector during the period 1961-64, as many as 51 new units have been licensed. The items licensed include brass utensils, brass and bronze wires, brass and bronze rods for making insulated copper wire (whether enamel paper, cotton or rayon), non-ferrous castings, lead sheets and pipes. This in effect has meant the exclusive reservation to the non-ferrous processing industries for the large scale sector to the detriment of the small sector.

(b) For AAC and ACSR, new units in the small scale sector were banned by the Development Commissioner but units were licensed in the large scale sector for the same item.

(c) Radios—The Central Small Industries Organisation does not approve of any new units in the small sector in view of the limited foreign exchange. However, new large scale units have been licensed.

3.8. Thus, we have to repeat that the *ad hoc* system of allocation of ceilings to the small scale sector has in effect meant putting a brake on its development. Many new, sophisticated items requiring a high degree of technical skill could not be taken up by small scale units in view of the limitation of foreign exchange. In some cases, the technician entrepreneurs proposing to take up these items had to give up their projects and find jobs in the large scale firms (where licences are being given for similar items). The limitations of foreign exchange caused by the system of *ad hoc* allocations to the small scale sector has really stood in the way of a large number of new units coming up in that sector. The following list is illustrative :—

3.9 Radio components like IF transformers, coils, volume control, gang condensors, wire-wound resistors, hand switches, ferrite antenna rods, RF chokes, oscillator coils, loud speakers;

Testing instruments,

Electrical measuring instruments like ammeters,
Volt meters etc.
Electrolytic condensors,
Megger and volt meters,
Microscopes,
Humidifiers and dehumidifiers,
Electrical speed indicators,
Clocks and stop watches,
Battery chargers,
Microphones,
Tipping gears,
Thermometers,
Ceramic permanent magnets,
Air-conditioning equipment,
PH Electrodes,
Projectors,
Air compressors,
Automatic temperature controllers,
Tipping gears,
Electric fuel pumps,
Surgical and medical diathermy machines,
Tape recorders,
Sprayers etc.

3.10 The very nature of these items, shows that it is a rapidly expanding field.

(5) Diversion of Ceilings

3.11 The ceilings fixed for the small scale units for CCI&E items, it is represented, were sometimes diverted to other categories like textiles. The fact that the allocation to the sector was made on an *ad hoc* basis facilitates such diversion.

(6) Inadequate Co-ordination Between the Two Sectors

3.12 Inadequate information about the items being produced by the small scale units and the lack of assessment of their capacities, coupled with inadequate liaison and exchange of information between the two sectors, has led to various anomalies like small scale units capable of producing certain items being starved of foreign exchange while the import of such items is being allowed to large scale units and large scale units being licensed for production of those items.

3.12.1 Instances of such anomalies have been brought to the notice of the Committee. A unit manufacturing wire-wound resistors, in the line of production since 1952, it is said, is unable to get the necessary raw material whereas two large scale firms have been licensed to make the same item with foreign collaboration. Another instance given is in the manufacture of tubular hollow rivets for brake lining and clutch, where, while the small scale unit is unable to get adequate foreign exchange for the raw material, a new unit in the large scale sector has been licensed.

3.12.2 Instances of import of items being permitted while the units in small scale sector manufacturing the identical items are denied raw material seem to be particularly prevalent in the automobile ancillary industry.

(7) Handicaps of Some Processing Units

3.13 Where units in the large scale sector both produce the raw material and process it into finished products, the small units using these raw material/components are at a disadvantage both regarding supply and price. A typical instance is in the manufacture of PVC and PVC products. The small units which are eminently suited for manufacturing products based on PVC, on a decentralised basis have to buy PVC at retail rates. The large unit has its own processing programme and can therefore, get the raw material at ex-factory price. Similar is the experience of aluminium chemical dyes, paints, pharmaceutical products, wire drawing units, bicycle components manufacturers, fluorescent tube fixtures manufacturers etc. There is also a more basic consideration that the manufacturers of these raw materials are processing the bulk of their production so that little is left for small scale units.

3.14 Certain small scale units producing end-products are linked to large scale processing units for obtaining their semis and components due, perhaps, to inadequate information about the capacities or technical capabilities of similar processing units in the small sector. Small scale units which require non-ferrous alloys and semis were getting A.U. licences till 1962. But now they are given only release orders and their import entitlements are earmarked to scheduled re-rollers of non-ferrous items. This gives rise to various difficulties :—

(i) The scheduled re-roller wants the import licence before planning the order while the JCCI&E wants a planning order before release of import licence.

(ii) Conversion charges, quality and delivery time are not subject to any control.

(8) Disability Regarding Capital Goods

3.15 The small scale units have to obtain import licences for machine tools, precision measuring tools etc. from the Tools Directorate of the DGTD at whose disposal a bulk ceiling is placed to meet the requirements of all the sectors. Small scale units, especially ancillary units, have often complained that their applications were not receiving due attention and that while certain items were not licensed to small scale units, large scale units were allowed to import them. As already mentioned, large scale units in some cases are allowed to utilise foreign exchange allotted for raw materials for importing capital goods also.

(9) Disadvantage Regarding Channelized Import

3.16 In the case of imports by STC, which are channelized for distribution through certain recognized dealers, small scale units have often been at a disadvantage since they are required to pay high premia, as in the open market, in spite of the actual users' applications recommended by State Directors of Industries.

3.17 The system of *ad hoc* allocation to the small scale sector instead of leading to unrestricted, rapid growth, has actually placed it at a considerable disadvantage. A systematic effort to assess production capacities and to collect production data regularly from the beginning would have obviated most of these and let to a more rational and equitable system of distribution of scarce raw materials as between the two sectors.

TABLE 3.1

Utilisation of Capacity in Certain ***Industries*** *in Uttar Pradesh & Maharashtra*

Name of the Industry	Uttar Pradesh			Maharashtra		
	No. of units	Total assessed capacity	Unutilized capacity as percentage of total capacity	No. of units	Total assessed capacity	Unutilized capacity' as percentage of total capacity
1	2	3	4	5	6	7
1. Electric wire & cables	25	35 mil. meters	70	13	164 mil. meters	85
2. Enamel wire	1	50 M. tons	80			
3. Pharmaceutical & drugs	21		37			
4. Switch gears (electrical)	1	3600 units	50	37	3,21,000 dozens	40
5. Converted paper products	2		40	18	Worth Rs. 39,97,424	35
6. Conduit Pipes	60	108000 running feet	35	7	3,570 ft.	20
7. Steel furniture	32	160 lacs	50	67	3,285 Tonnes	69
8. Nuts and bolts	36	2,800 Metric tons.	64	20	1,500 Tonnes	58
9. Soap	48	32,000 Metric Tons	95			
10. Paints & varnishes	7	Rs.175·30 lakhs	50	34	29,000 Tonnes	80·03
11. Moulded plastics, niwar, cane, buttons, glass stand tubes.	26	Rs.24·24 lakhs	48			
12. Scientific & Measuring Instruments				15 (from Greater Bombay)		
(*a*) From plastics	50	Rs. 60 lakhs	40		900 nos.	73
(*b*) Precision balances	15	Rs. 32 lakhs	50		1,250 nos.	33

TABLE 3.1—*contd.*

1	2	3	4	5	6	7
(*c*) Microscopes (student type) ..	3	Rs. 4·75 lakhs	79		2,16,000 nos.	73
(*d*) Thermometers	5	Rs. 25 lakhs	64		6,00,000 pcs.	81
(*e*) Glass apparatus	15	Rs. 15 lakhs	50			
13. Tin plate containers	25	Rs. 125 lakhs	60	35	3,068 Metric Tons	10
14. Cycle parts, handles, spokes, forks ..	10	Rs. 50 lakhs	50	4	16,35,185	39
15. Radios (assembling and manufacturing of parts)	25	Rs. 25 lakhs	52			
16. Agricultural implements	98		92	25	2,080 M.T.	33
Non-Ferrous Metal Using Industries						
17. Rerolling factories	40	1,500 M.T.	45	11	7,477 M.T.	71
18. Wire drawing units	73	7,500 M. T.	20	12	3,856 M.T.	72
19. Alloys making	21	10,000 M.T.	85			
20. Castings & moulding :						
(*a*) Utensil casting	563	37,000 M.T.	92	26	9762 M.T.	92
(*b*) Other misc. casting	239	4,025 M.T.	80			
(*c*) Automobile spares and machine parts casting	21	1,000 M.T.	75			
(*d* Surveying, drawing and math. instruments	11	74 M.T.	70			
(*e*) Electrical goods	12	355	65			
21. Sanitary fittings	5	640	75			
22. Hospital equipments	4	60	75			
23. Galvanising	53	880	70	14	537 M.T.	41
24. Chemical industry	27	136	81			
25. Misc. industries	53	1,412	80			

Source : Notes submitted by the respective State Directorates of Industries

CHAPTER FOUR

RECOMMENDATIONS

4.1 We set out in this chapter our recommendations regarding the allocation and distribution of scarce raw materials between the large, medium and small scale sectors and inspection of the utilization of the allotted raw materials.

INTERIM RECOMMENDATION

4.2 It became evident early during the course of our work that the present system of allocation of scarce raw materials was operating to the disadvantage of the small scale sector. As we were unlikely to complete our work and finalize our recommendations before the allocations for the second half of the year 1964-65 were finalized, we decided to make an interim recommendation that the then existing allocations of foreign exchange to this sector amounting to about Rs. 20 crores per half year should at least be maintained till our report was submitted. A copy of the letter addressed by the Chairman to the Secretary, Ministry of Industry, in this connection, is given in the Appendix. We are constrained to record that the Government did not find it possible to implement the recommendation which we considered modest and absolutely essential. This has further strengthened our conviction that the present *ad hoc* system of allocation can only work to the detriment of the small scale sector.

4.3 The items of scarce raw materials under our examination are likely to continue to be relatively scarce for quite some time to come. The increased indigenous production of steel, basic inorganic chemicals, PVC, etc., may, perhaps, make the position regarding these items somewhat easy but even these items will continue to be in short supply relative to their total country wide demand. We are convinced that a rational, equitable and enduring system of allocation can only be based on an accurate, dependable and uniform assessment of production capacities and actual production in the three sectors. A system of determination of priorities of end-products is essential in the context of the present raw material shortages. We are emphatic that there should be no disparity in availability of scarce raw materials between different units producing similar end-products. We are also convinced that the small scale sector, which opened up vistas of opportunities for our enterprising middle class young men, has an expanding role to play in stimulating the new entrepreneurial class, harnessing latent capital resources and decentralizing the economic structure of the country.

4.4 At the same time, in view of the present and anticipated shortages of scarce raw materials, we feel that the entry of new units requiring scarce raw materials should be clearly known to the Government and be subject to advice and guidance by the Directors of Industries of the State Governments. But the decision to set them up or not will rest entirely upon the new entrants. It is not our intention that the new entrants should obtain licences as in the case of the large scale sector. The prospective entrepreneurs will do well in their own interest to consult the State Directors of Industries in advance and apprise them of their production programme so that the Directors may be able to assess the priority of the end-products, the availability and requirements of the scarce raw materials etc. and guide the entrepreneurs accordingly. The role of the State Director of Industries that we envisage in this context is not that of a censor but that of a guide and counsellor. By this method, we envisage some advance assurance of scarce raw material for the new entrants. This system of guidance need not be insisted upon where the unit is depending entirely on indigenous or freely available raw materials or where the import content is a negligible percentage of the total raw material requirements of the units. We feel that in this way while the entrepreneurs will be still free to choose the line of industrial activity they want, they can expect proper guidance in cases where their raw materials are scarce, even before they invest time and money in the enterprise. A suitable and simple procedure for guidance, such as that contemplated above, may be drawn up on a uniform basis for all States by the Central Small Industries Organisation in consultation with the State Directors. The CSIO will also have to guide the States regarding the industries in which there is scope for new units requiring scarce raw materials.

RECOMMENDATIONS—SHORT-TERM

4.5 During the course of our working, we became painfully aware of the fact that dependable, uniform data regarding different small scale industries is not available over a period of time. We recommend that this basic deficiency should be set right as quickly as possible. We hope that adequate data to form a basis for the implementation of our recommendations will be available in the States in about 18 months' time if immediate steps are taken to organise their collection and analysis on a uniform basis in all the States.

4.6 From the analysis of the availability of scarce raw materials, it is borne out that, generally speaking, the units in the small sector were able to secure scarce raw materials to the extent of about a third of their requirements, whereas units in the large sector were able to utilize nearly two-thirds of their production capacities with the scarce raw materials allotted to them although in recent years the position has deteriorated.

4.7 The Non-Ferrous Metals Survey conducted by the CS!O in 1964, the various studies conducted by the International Perspective Planning Team during 1962, the studies conducted by the Directorate of Industries, Maharashtra and U.P., at our instance, all confirm the position so far as the small scale sector is concerned. The Central Statistical Organisation's paper on "Utilisation of Installed Capacity in Selected Industries of India-1957-61" throws light on the position regarding the large scale sector.

4.8 In order to ensure an equitable distribution to the two sectors, we feel that immediate relief should be given to the small sector. We, therefore, recommend that the total availability of foreign exchange for import of components, spare parts, non-ferrous metals, steel, etc., to the small scale sector should be increased to at least Rs. 25 crores per half year (as against the range of Rs. 17 to Rs. 20 crores per half year in recent years), for the next three half years as a short term measure.

4.9 The implementation of this recommendation involves the immediate provision of an extra Rs. 8 crores for the small scale sector over the allocation made for the half year ending 31-3-65. We feel that this extra amount should be found, in the national interest, without cutting the allocation to the large sector. If this is not possible, we recommend that suitable adjustments may be made in the allocations to the other sectors of the economy. An adjustment of about Rs. 8 crores from the total foreign exchange available will not cause hardship to any sector in particular. We strongly recommend that this should be implemented with effect from the allotment period starting from 1st April, 1965.

4.10 Our recommendation for the interim period is intended only to mitigate the immediate hardship of the small scale sector. However, as we have already mentioned, a long-term, enduring solution is allotment on the basis of dependable facts about all the sectors.

COMPARABILITY BETWEEN THE TWO SECTORS

4.11 Sponsoring authorities like the Textile Commissioner, Jute Commissioner, etc. are responsible for allocations to all units engaged in industrial activity falling under their respective spheres. The sector-wise differences arise more in the case of industries looked after by the DGTD and the CSIO. Therefore, we attempted to reclassify the industries looked after by these two authorities so as to put them on a comparable basis.

4.12 A whole field of industrial activity is undertaken by private firms of varying sizes. Some units produce a number of products while others concentrate on particular products. The products of some units have a higher national priority but that does not mean that those of other units are not essential. All these units are contributing to industrial production of the country and their production has adequate demand which, but for their production, would have remained unsatisfied. At the one end, there are small one-man or two-men units located in a single room working with one or two machines undertaking mainly job orders. At the other end, there are huge industrial establishments employing thousands of workers with investment running into crores of rupees. These have been divided into three sectors as large, medium and small scale for convenience in administering various programmes of regulation and assistance. They all have a legitimate claim on the scarce raw materials. We, therefore, recommend that the scarce raw materials should be equitably distributed without reference to the sector to which the units belong subject only to the overall national priorities of their end-products. For determining this equitability we have broadly divided these units into the following categories, on the basis of the present difinition of the large (including medium) and small scale sectors.

(I) Units producing such goods/services which could only be undertaken in the large (including medium) scale sector.

(II) Units producing goods/services which could be manufactured depending upon economies of scale, either in the large (including medium) sector or in the small sector.

(III) Units which fall in the small scale sector but produce goods/services/components/sub-assemblies or other items, which are of a primary nature, in the national interest, though they may not have comparable units in the large (including medium) scale sector.

(IV) Other units in the small scale sector.

4.13 Each of the above categories of units has its respective role to play in our national economy.

4.14 All units on the registers of the DGTD and the State Directors of the Industries may be reclassified as above and scarce raw material allotted within each group on a uniform basis.

4.15 We have attempted as an illustration a reclassification of industries now handled by the DGTD so as to group them into categories (I) and (II) above and this is given in Appendix I.

4.16 To implement this recommendation, the DGTD will have to somewhat modify the present system of preparing estimates of requirements of scarce raw materials Directorate-wise. Estimates will now have to be prepared for each directorate for each of the categories mentioned above, but this should not involve much additional work.

4.17 In the small scale sector, however, the whole work has to be organised for the first time. For all category (I) and category (III) industries, estimates of production capacities, past production and requirements of different items of scarce raw materials will have to be prepared in each State by the State Directorate of Industries and coordinated and consolidated at the Centre by the CSIO. The lists, thus prepared, would be comparable to the directorate-wise category-wise estimates prepared by the DGTD. These two sets of lists can then be considered by the allocating authorities, like the Ministry of Industry, Ministry of Steel, etc., for directorate-wise category-wise allotment in the two sectors as is now being done for the large sector alone.

4.18 We have considered the additional work load involved in implementing this recommendation by the small scale sector.

As the data in chapter two disclosed, the Chief Controller of Imports & Exports alone is now receiving about 45,000 applications and is issuing about 18,000 licences per annum to this sector. The number of licences issued to the large scale sector was about 8,000 in 1963-64. A systematic and purposive scrutiny at the State level will eliminate a number of applications and facilitate further work. Even when this entire work is distributed over all the State Directorates of Industries, it will be seen that the work load involved is heavy but is absolutely justified in view of the systematization and orderliness achieved. It will also help to expose and eliminate bogus firms, inflated and untenable claims and give scope for the further growth of genuine units. We recommend appropriate strengthening of the Directorates of Industries of the State Governments at the technical, statistical and administrative levels to enable them to cope up with the size and quality of work.

CATEGORY IV

4.19 It is conceived that a large number of units in this group will not qualify for inclusion in the three groups listed before; it cannot, however, be denied that they are rendering valuable service to the community. Their employment potential is considerable. In fact, this category serves as the starting point for skilled workers, technicians and entrepreneurs to try out their new ideas and slowly graduate into category (III) or category (II) industries in the small scale sector. It will be a serious disadvantage to the national economy to restrict the entry of such new entrepreneurs, who, through ingenuity and innovation, provide goods and services and employment quite out of proportion to their meagre requirements of scarce raw materials.

4.20 As we have already mentioned, it is necessary to guide the entry of new firms requiring scarce raw materials so that there may be no further strain on our meagre foreign exchange resources. But even so we feel that provision should be made as a long term programme for new entrants into the sector. We suggest that, depending upon availability and as a residual measure, an *ad hoc* allocation of a small amount per half year for all imported scarce raw materials, components or spare parts, non-ferrous metals and steel might be allowed for this category. The CSIO will guide the State Directors of Industries as to the type of industries which could be fostered under this category. The State Directors of Industries will be the sponsoring authorities, as usual, for these allocations. It might, however, be made clear to such entrants that allocations to them would depend on availability and the priority of their end-products. When these units prove their technical feasibility and viability, they may be transferred either to category (II) or category (III) above, giving scope for new entrants again.

PRIORITIES OF INDUSTRIES

4.21 The foreign exchange resources of the country are limited and have to be conserved to the utmost extent and utilized with utmost care. Therefore, even at the risk of leaving a part of investment under-utilized, it will be necessary to feed industries which have a higher national priority. Thus, even amongst the comparable industries in the two sectors, priorities may have to be drawn up so that those industries with higher priority get higher allocations and provide the much more needed goods/services. We recommend the following categories and the industries must fall under one or the other of these categories.

(1) Defence requirements.

(2) Industries directly concerned with the development of agriculture and food production.

(3) Export-oriented industries.

(4) Import substitution industries.

(5) Transport and power.

(6) Units producing components, etc., required in certain vital sectors like railways and others; those producing accessories, components, etc. which are imported and essentially required for keeping plant and machinery in the above industries running.

(7) Producer goods and essential consumer goods industries.

4.22 It is expected that units which are working as ancillaries to a particular large scale unit would get, to that extent, the priority of the principal unit.

4.23 We recommend that in these industries the existing capacities should be more fully utilized and that additional raw material should be secured, to the extent possible, to utilize existing production capacities.

4.24 Under the heading 'Producer Goods and Essential Consumer Goods', we recommend the inclusion of industries given in Appendix II.

THE ROLE OF CSIO AND STATE DIRECTORATES

4.25 In the case of medium and large scale units, the DGTD or the other authorities like Textile Commissioner, Jute Commissioner, etc. have all particulars about the concerned units on their registers and are able to estimate their requirements and allocate accordingly. In the small scale sector, however, the work will have to be jointly undertaken by the CSIO and the State Directors of Industries.

4.26 The State Directors of Industries, as sponsoring authorities, will be responsible for estimating the requirements, allocation and inspection of utilization. They will also have to play an important role in the distribution of scarce raw materials through the State Small Industries Corporations. The CSIO on the other hand, will have to work as the central coordinating and controlling organisation for this work and be in liaison with other Central authorities concerned with the allocations of scarce raw materials. Details of the role that we envisage for these two agencies are given in Appendix IV.

4.27 In most of the State Directorates, a senior officer is now looking after the entire work regarding small industry programmes. The administrative, technical and statistical sections in the Directorates need reorganisation and considerable expansion to fulfil the role envisaged for the Directorates. We recommend that the pattern of reorganisation and the actual strength required should be worked out immediately by all State Governments. The DC(SSI) should help the State Directorates in this regard. In some States, a full-time Joint Director may be needed for the work relating to raw materials. He may be assisted by a Deputy Director (Statistics) and other adequate supporting staff, both at the headquarters and in the districts.

4.28 The CSIO has been concentrating, during the last ten years, on industrial extension service. Matters regarding supply of raw material were, perhaps, considered as regulatory work and did not receive adequate attention till recently. It is surprising that even now there is no separate directorate to tackle this important but difficult problem. In view of the role envisaged for the CSIO in our recommendations, it is necessary to post immediately a senior officer exclusively for this work. He will have to be supported by adequate statistical and other assistance.

ALLOCATION

4.29 At the national level, joint committees, including representatives of the concerned administrative Ministry, DGTD and CSIO should allocate raw material on the basis of overall requirements and availability to the different industry groups. Once the availability to the particular industry group in the small scale sector is decided, the CSIO will redistribute it to the States in accordance with their estimated requirements and will also inform the States about the entitlement of the industry groups so that there may be equitable distribution between the different units in the same industry group in the different States.

DISTRIBUTION

4.30 The large scale units which receive bulk allotment are able to import directly in view of the large quantities involved. As far as possible, scarce raw materials to small scale units should be channelized through raw material depots opened by the State Small Industries Corporations. In States where such Corporations are not existing we recommend that they should be constituted immediately. The raw material depots might be established at convenient places so that a small industrialist may not have to travel more than a hundred miles to secure his raw materials. These raw material depots should be recognized as controlled/registered stockists by the Iron & Steel Controller and as agents for distribution of imported material by the Minerals and Metals Trading Corporation/State Trading Corporation and such other organisations. State's quotas of other scarce materials, like caustic soda, PVC, etc., might also be allotted to the Small Industries Corporations.

4.31 When industrial scrap available with defence establishments, railways, public undertakings, etc. is disposed of, an appropriate portion may be made available to the small scale units at a price which has some relation to the auctioned price, wherever the latter procedure is in force. The State Small Industries Corporations can play a useful part in this.

4.32 It has been represented that these raw material depots might become yet another link in the chain of distribution and add to the total cost of the raw material. We feel that the recognition of the Corporations on the lines suggested above will actually eliminate many middlemen and, in view of the assured supplies at controlled/fair price, justify the small charges levied.

INSPECTION

4.33 We note that already the State Directors of Industries are doing inspection work on behalf of the DGTD at the latter's request. We recommend that this practice be extended to the extent desirable. We feel that there should be such inspection of all the units at least once in a year.

4.34 It would also be a definite advantage to have central teams of inspection consisting of representatives of DGTD and CSIO to visit a few large and small scale units at random.

ASSESSMENT OF CAPACITIES

4.35 The CSIO recently completed an assessment of the production capacities of the non-ferrous metal using small scale units, with the cooperation of the State Directorates. Similar assessment will have to be conducted, on an industry-wise basis, for all industries under category (II) and category (III) above. We recommend that this work should be taken up immediately and completed in the time indicated.

4.36 In order to realise our objective of equitable distribution of the scarce raw materials between the two sectors it is necessary to have a proper assessment of the capacities of the different units in the two sectors. It is also to be ensured that such assessment is on a uniform basis. We, therefore, recommend that suitable norms, in respect of raw materials, for the purpose, be evolved by mutual consultation between the DGTD, the CSIO and the State Directors of Industries. We further recommend that in the actual assessment work, the State Directors be associated wherever necessary.

4.37 The assessment of capacities suggested above will yield valuable information regarding the capacities in the small scale sector. It should be analysed and passed on to the DGTD and the Chief Controller of Imports & Exports and the Licensing Committee for their use.

4.38 There could be better co-ordination between the CSIO, DGTD and the CCI&E with a view to plugging the loopholes in the import of spare parts etc. Some parts/components which could be made in the country are still imported. This, form the national point of view, is a serious drain.

4.39 We recommend that joint panels of representatives of DGTD, CSIO and CCI&E should scrutinize the lists of parts/components now imported with a view to examine whether these could be produced within the country.

4.40 We recommend that these joint panels should scrutinise the Directorate General of Supplies and Disposals imports also with a view to encouraging industrial units in the country to take up their production.

4.41 In regard to indigenous scarce raw materials such as steel, aluminium, basic organic chemicals and intermediates, including dyes, basic inorganic chemicals like caustic soda, soda ash, titanium dioxide, etc.; pharmaceuticals and drugs, plastics, synthetic and natural rubber, etc., we recommend that an equitable proportion should be set apart for the small scale units at reasonable prices. In the pooling and retail distribution of such indigenous materials, the Small Industries Corporation can play a useful role.

ACKNOWLEDGEMENTS

One of our members, Dr. D. K. Malhotra, could not attend the last meeting of the Committee as he had to go on an assignment abroad; consequently, he could not sign the report. He was, however, present at our 6th meeting when the 'recommendations' part of our report was discussed and finalised. We wish to record our sense of appreciation and thanks to him for the valuable work he has done as a member of the Committee.

2. The Committee would not like to end this report without expressing its sense of appreciation and thanks to the several persons and organizations for their help in our work; in particular the Committee would like to thank Shri K. V. Venkatachalam, Joint Secretary, Ministry of Industry & Supply; Shri Madhav Rajwade; Secretary to the Government of Maharashtra; Shri N. Sethuraman, Additional Director of Industries, Government of Uttar Pradesh, and Shri N. R. Gopalakrishnan of N.C.A.E.R.

Finally, the rest of us would like to convey our high appreciation of our Member Secretary, Shri S. V. S. Sharma, who spared no effort in collecting all the necessary data and made the task of the Committee easier by his hard work and industry.

P. S. Lokanathan	*Chairman*
A. R. Bhat	*Member*
G. L. Bansal	*Member*
P. C. Kapoor	*Member*
S. T. Merani	*Member*
S. V. S. Sharma	*Member-Secretary*

New Delhi.
May 11, 1965.

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APPENDIX I

PROPOSED CATEGORISATION OF INDUSTRIES[1]

(*vide* para 4.15)

Category I

ENGINEERING INDUSTRIES

(a) Tools industrial machinery, internal combustion engines and allied industries except the whole group of ancillary industries.

(b) All electrical engineering industries except aluminium conductors, miniature lamps, electric motors (upto 20 H.P.), measuring instruments, motor starters, radio receivers and storage batteries.

(c) All instruments industries, excepting box cameras, clinical thermometers, microscopes, pressure gauges, water meters.

(d) Heavy mechanical engineering industries except bolts, nuts, rivets, dog-spikes and washers, conduit pipes, domestic utensils.

(e) Light mechanical engineering industries except bicycles, bicycle parts and accessories, building and hardware fittings, clocks, expanded metal, hurricane lanterns, sewing machines, machine screws, wood screws, steel furniture, stoves, umbrella ribs, wire products & zip fasteners.

(f) All metallurgical industries.

NON-ENGINEERING CATEGORIES

(g) All alkalies and allied chemicals.

(h) All acids, fertilizers and miscellaneous chemicals, except calcium chloride, copper sulphate, double salt, ferric chloride, ferrous sulphate and zinc chloride.

(i) Miscellaneous chemicals except electroplating chemicals, water treatment chemicals, activated chemicals and others including fluxes, gas mantles, heat treatment salts, metal treatment solutions, potassium permanganate and silica gel.

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[1] The Categorisation is based on the grouping of Industries in Appendix 1 (a) & (b) to the Annual Report of the Development wing (now DGTD), 1961—62.

(j) Alcohol and organic chemicals, except ethyl acetate hydroquinone, phthalate plasticisers.

(k) Insecticides, plastics and plastic chemicals, except pesticidal formulations, pyrethrum extract, aromatic chemicals, synthetic essential oils, etc. Flavouring essences, perfumery compounds, sandalwood oil, turpentine oil.

(l) Plastics except leather cloth, phenol formaldehyde, plastic moulded goods, polythene film and layflat tubings, synthetic resins for plywood.

(m) Coke oven by-products and coaltar distillation products.

(n) Industrial explosives.

(o) All drugs and pharmaceuticals, except anaesthetics, anti-diabetic drugs, anti-dysentry drugs, anti-leprosy drugs, anti-pyretics, anti-T.B. drugs, hormones, liver extracts, alkaloids and allied drugs, other drugs like bismuth salts, calcium gluconate, calcium lactate, chloral hydrate, ether B.P., ferrous gluconate.

(p) All mineral industries, except L.T. ceramics, sanitary-wares, stoneware pipes, stoneware (other kinds) whitewares, enamelware, glass and glasswares, liquid gold, refractories.

(q) All paper industry, except duplicating stencils, carbon paper and typewriter ribbons.

(r) All timber products, except cork products, teachests, plywood and matches.

(s) Rubber products like tyres and tubes.

(t) Oils, soaps, paints, etc., like carboxy Methyl cellulose, red lead, titanium dioxide, cigarettes, glucose and dextrose.

CATEGORY II

The following industries now handled by the DGTD and corresponding industries in the small scale sector will come under this category.

(a) Ancillary industries to tools, industrial machinery, internal combustion engines and allied industries.

(b) Electrical engineering industries like aluminium conductors, miniature lamps, electric motors upto 20 H.P., measuring instruments, motor starters, radio receivers and storage batteries.

(c) Instrument industries like box cameras, clinical thermometers, microscopes, pressure gauges and water meters.

(d) Heavy mechanical engineering industries, like agricultural implements, bolts, nuts, rivets, dogspikes and washers, conduit pipes, M.S. welding electrodes, domestic utensils, etc.

(e) Light mechanical engineering industries, like bicycles, bicycle parts and accessories, building and hardware fittings, clocks, expanded metal, hurricane lanterns, sewing machines, sewing machine needles, machine screws and wood screws, steel furniture, stoves, umbrella ribs, wire products and zip fasteners.

(f) Non-engineering industries, like acids, fertilisers like calcium chloride, copper sulphate, double salts, ferric chloride, ferrous sulphate, zinc chloride.

(g) Miscellaneous chemicals, like basic electroplating chemicals, compound electroplating salts, water treatment chemicals, activated chemicals and other including fluxes, gas mantles, heat treatment salts, metal treatment solutions, potassium permanganate and silica gel.

(h) Alcohol and organic chemicals, like ethyl acetate hydroquinone and phthalate plasticisers.

(i) Insecticides, pesticides, etc., including pesticidal formulations, pyrethrum extract, aromatic chemicals, flavouring essences, perfumery compounds, sandalwood oil, turpentine oil and synthetic essential oils.

(j) Plastics including leather cloth, plastic moulded goods, polythene film and layflat tubings, synthetic resins for plywood and phenol formaldehyde.

(k) All dyestuff industries.

(l) Drugs and pharmaceuticals, including anaesthetics, anti-diabetic drugs, anti-dysentry drugs, anti-leprosy drugs, anti-pyretics, anti-T.B. drugs, liver extracts, alkaloids and allied drugs, other drugs like bismuth salts, calcium gluconate, calcium lectate, chloral hydrate, ether B.P., ferrous gluconate.

(m) Mineral industries like L.T. ceramics, sanitarywares stoneware pipes and other stoneware, whitewares, enamelware, glass and glasswares, liquid gold pencils, refractories.

(n) Paper industry, like duplicating paper, stencils, typewriter ribbons.

(o) Cork products, matches, plywood, tea-chests, etc.

(p) All leather manufactures.

(q) Rubber manufactures, including rubber footwear, rubber components of railway fittings, latex foam sponge, hoses, dipped rubber goods, vee belts.

(r) Oils, soaps, paints, etc., like solvent extracted oil, cosmetics and toilet preparations, metallic stearates, oleic acid, soap, synthetic detergents, textile auxiliaries, paints, enamels, varnishes, etc. food and tobacco products, biscuits, breakfast foods, confectionery and flour milling.

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APPENDIX II

SUGGESTED PRIORITY INDUSTRIES

(*Vide* para 4.24)

Engineering

1. Machine tools and accessories.
2. Ancillary industries to automobiles and railway rolling stock.
3. Ancillary industries to textile and jute machinery.
4. Ancillaries to electrical industry.
5. Dies, moulds, jigs and fixtures, gauges, etc.
6. Hand tools and cutting tools.
7. Scientific and measuring instruments (including electrical).
8. Surgical instruments and hospital appliances including X-ray equipment.
9. Electronic equipment.
10. Industrial fasteners.
11. Optical instruments.
12. Electric motors.
13. Cables.
14. Enamelware.
15. Sewing machines.
16. Radios.
17. Cycles.
18. L.T. Transformers.
19. Switchgears (electrical).
20. Fire fighting equipment.

सत्यमेव जयते

Chemicals

21. Pesticides formulations.
22. Dyestuffs, including organic pigments.
23. Synthetic organic chemicals (particularly penultimate intermediates required for manufacture of dyes, pharmaceuticals and drugs, industrial essential oils, etc.)
24. Paints and varnishes (industrial finishes).
25. Synthetic resins and paint additives.
26. Synthetic industrial adhesives.
27. Pharmaceuticals and drugs.
28. Industrial components made out of plastics and rubber and foam plastics and contraceptives.
29. Coated cloth such as PVC-coated cloth, polythylene-coated jute, etc.
30. Flexible packing.
31. Specialised coated papers such as blue print.
32. Detergents and detergent formulations.
33. Inorganic pigments.
34. Inorganic chemicals, particularly for electroplating, pest control, raw materials for the paint and allied industries.
35. Precision lenses for scientific and other instruments.
36. Foundry industry, including pressure die casting.
37. Industrial brushes.
38. Machine tool industry, including plants for chemicals and pharmaceuticals and mining industry.

APPENDIX III

(*Vide* para 0.17)

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH, PARISILA BHAVAN, 11, *INDRAPRASTHA ESTATE, NEW DELHI*-1

Dr. P. S. Lokanathan, *November* 10, 1964
Director General *No.* 16(1)/64-*F.I.*

The Secretary,
Ministry of Industry & Supply,
Department of Industry,
New Delhi.

Dear Sir,

SUB. :—*Committee on Allotment of Scarce Raw Materials-Recommendations of*

The Committee on allotment of scarce raw materials which was appointed by the Government of India, Ministry of Industry and Supply, Department of Industry, New Delhi *vide* its Resolution No. SSI(A)20(68)/64 dated the 10th September, 1964 has held three meetings.

It was brought to the notice of the Committee that the current (April-September, 1964) allocations of foreign exchange to the small scale sector for import of various categories of raw materials are of the following order :—

(1)	Raw materials/Components licensed by Chief Controller of Imports and Exports.	Rs. 7 crores
(2)	Steel	Rs. 6 crores
(3)	Non-ferrous metals.	Rs. 6 crores

These allocations are for a half year. Including a few miscellaneous items which may not have been included above, the annual allocation of foreign exchange to the sector may be said to be of the order of Rs. 40 crores.

At the last meeting the Committee decided to make an interim recommendation and the following resolution was adopted unanimously after a careful and detailed discussion :

> "The Committee felt that having regard to the plight of the small scale sector and the present system of allocation which is unsatisfactory, some additional allotment to the small units should be made. The Committee considered also the extent to which the allocation needed to be increased.
>
> Meantime, it was brought to the Committee's attention that a serious foreign exchange cut might be made in the coming months. If this were to materialise, the Committee strongly recommends that the contemplated cut should not be imposed on the small unit sector and that at least the existing allocation of foreign exchange be maintained, whatever the seriousness of the foreign exchange situation".

In view of the above, the Committee for the present refrained from making recommendations for a further increase in allocation which it had desired to do.

I request that the Government take into account the recommendation and give effect to it.

Yours faithfully,

P. S. LOKANATHAN

Chairman,

Committee on Allotment of Scarce Raw Materials

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APPENDIX IV

ROLE OF THE D.C.(SSI) AND THE STATE DIRECTORS OF INDUSTRIES

(*Vide* para 4.26)

(a) *Role of the D.C.(SSI)*

1. To devise uniform procedure for assessment of capacities, assist and supervise the work of State Directorates and assist the DGTD in carrying on the work in the large scale sector.
2. To maintain a running history of all small scale units in card index or on punch cards so as to quickly evaluate their performance over a period of time without reference to the States.
3. To coordinate the work of the State Directors in preparing lists of requirements of scarce raw materials industry-wise and prepare estimates, comparable Directorate-wise with the DGTD lists, on an all-India basis.
4. To represent the small scale sector on the Committees of the various allocating authorities, like the Ministry of Industry, Ministry of Steel, Ministry of Petroleum and Chemicals, etc., and to secure equitable allotments to the sector.
5. To be in continuous liaison with authorities/organisations, like CCI&E, Iron & Steel Controller, MMTC/STC, DGTD, etc., to see that the material allotted is actually dispatched to the different States according to the programme.
6. To issue general directions to the State Directors regarding allocations to different industries so as to ensure equitable allocations to units in different States but in the same industry group.
7. To receive reports from the State Directorates regarding actual allocations and check regarding the compliance of the general directions.
8. To assist the State Directorates in carrying out inspection and conduct independent inspection of utilisation on a sample basis.

9. To help in scrutiny of imported components/spare parts with a view to locating suitable small scale units for undertaking those items.
10. To give general directions to the State Directorates regarding the development of new industries in the small scale sector under category 4 and ensure their smooth growth.

(b) *Role of State Directors of Industries*

1. To register all small scale units in their States and keep the register up-to-date.
2. To collect production returns (half yearly) from all registered units and compare actual production with the scarce raw material allotted.
3. To maintain a running history of all units so that their performance over a period of time may be quickly evaluated.
4. To receive applications for allotment of scarce raw materials, scrutinize applications and prepare industry-wise estimates of requirements for different items of scarce raw materials for onward transmission to D.C.(SSI).
5. In the case of CCI&E items, to recommend applications for grant of licences within the ceilings allotted to them and forward the same to the concerned licensing authority after ensuring compliance with the directions issued by D.C.(SSI) and the policy laid down in the Red Book.
6. In the case of other items, to allot material to the units within the ceilings allotted to them after ensuring compliance with the directions issued by the D.C.(SSI).
7. In the case of items imported by the MMTC/STC, to arrange to secure the State quota for the SSI Corporations for actual distribution to individual units.
8. In the case of indigenous raw material, like steel, caustic soda, PVC, etc., arrange to secure State quotas for the SSIs for actual distribution to individual units.
9. To assess the existing capacities in different industries in cooperation with, and according to the general guidance provided by D.C.(SSI).
10. To inspect utilization of scarce raw materials by different units at least once in a year and initiate suitable action in cases involving misuse.
11. To develop Category (iv) units where necessary with the general guidance of the D.C.(SSI).

L21DCSSI/65—3,000—5-2-66